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The Conference Board

Report Number 948

Campaign Finance Reform

Highlights are:

- *action near on campaign finance reform*
- *role of Federal Election Commission evaluated*
- *reformers urge a streamlining of FEC procedures*
- *impact of campaign finance reform on business*

About The Conference Board

Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

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Printed in the U.S.A.

ISBN NO. 0-8237-0394-0

Campaign Finance Reform

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Acknowledgement

This report could not have been written without the liberal use of data and material made available by various governmental, Congressional and private sector organizations. The Conference Board would like to thank the Congressional Research Service, the Center for Responsive Politics, Common Cause, and the National Alliance of Business Political Action Committees for the data they made available.

The authors would like to thank Jayantha Jayman of the Conference Board's Washington office for his assistance in the research on this project.

From the President

The debate over what constitutes fair and effective election campaign funding law tends to focus on specifics. . .spending limits versus public financing, or the future of political action committees, for example. Except for some experts who closely follow reform developments in the Congress and elsewhere, the arguments pro and con can be confusing at best.

Any move for reform should ensure that no individual's or group's interests are written out of the equation before the political contest begins. But, as with most issues, effective long-term change is only possible when reformers objectively scrutinize the foundation of the system. In the case of campaign finance, the foundation is the Federal Election Commission. This report therefore focuses on the structure and authority of the Commission and its mandate, and on the broader aspects of campaign reform efforts.

The Conference Board would like to thank Ellen Miller of the Center for Responsive Politics, Steven F. Stockmeyer of the National Association of Business Political Action Committees, and Lawrence Noble of the Federal Election Commission for their assistance and advice during the writing of this report.

PRESTON TOWNLEY
President and CEO

Author's Note

Just before adjournment for August recess, the Senate and House passed their versions of proposed campaign finance legislation. The measure must go through conference proceedings, however, to hammer out a compromise bill, then pass through the President's office for signing. Because some of the provisions of the Senate's proposal are opposed by the Bush Administration, most experts expect a protracted fight in conference and a possible Presidential veto.

Introduction

> "Over 2000 years ago in ancient Greece, a first attempt at campaign reform was made. The great philosopher Plato in his classic work, *The Republic*, proposed a radical restructuring of the Athenian state. And whom did the philosopher suggest should run the Athenian state? None other than philosopher-kings. Plato proposed a reform so that men like him would take command. Thus one of the oldest principles of election law reform was first illustrated: if allowed to design chicken coops, foxes make notoriously poor architects."[1]

The effort to curb the intertwining of money and politics began at the end of the nineteenth century. (See exhibit on page 8 for a history of campaign finance reform measures.) Pressure on lawmakers to revise current campaign finance law has increased in the aftermath of the 1988 Presidential campaign. Record-breaking expenditures and negative advertising were the basis of most complaints. But other factors fuel the current push toward reform. These include a record 98% of incumbent Congressmen returned to office this past election year and troubling ethics questions. Voters and political leaders on both sides are expressing frustration and disappointment with the system as it has evolved in recent years.

The business community has joined in the litany of complaints. Business leaders resent arm-twisting by lawmakers; persistent and too-early requests for money; leadership PACs which enable lawmakers to collect and then contribute moneys to other members; and requests for participation in inappropriate activities, such as providing company planes to candidates and donating facilities and equipment to conventions. Business is leery of these demands and wants clear guidelines.

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[1] William C. Oldaker, "Of Philosophers, Foxes, and Finances: Can the Federal Election Commission Ever Do an Adequate Job?" *Annals of The American Academy of Political Science and Social Science*, July 1986, p. 133.

History of Campaign Financing Legislation

1896 The election of William McKinley is financed primarily through funds from the business community.

1907 Theodore Roosevelt recommends public financing of federal elections and a ban on private institutions. Congress passes the Tillman Act to prohibit business groups from making contributions to federal candidates.

1925 The Teapot Dome Scandal of the 1920s leads to further reform. Congress extends campaign reform legislation with the passing of the Corrupt Practices Act, requiring disclosure of campaign finances and placing limits on contributions. Lack of specificity makes the act difficult to enforce. In fact, the act becomes noteworthy by the extent to which it is ignored.

1936 Organized labor makes its first significant effort to influence elections with campaign expenditures.

1940 Congress passes the Hatch Act restricting political activities by federal employees.

1943 Congress passes the Smith-Connelly Act, barring unions from making direct contributions to federal elections from union treasury funds. The section was repealed in 1948.

The Congress of Industrial Organizations (CIO) establishes the first political action committee.

1947 Congress passes the Taft-Hartley Act making permanent the ban on contributions and expenditures by unions and corporations in general elections. Later these limitations are extended to primaries and conventions.

1955 Labor PACs flourish as union leaders begin to directly solicit employees for contributions instead of depending on union dues.

1960 Trade and professional PACs gear up. Diverse groups like physicians and dairy farmers form PACs. Relatively few corporations yet have PACs on either the state or the federal level.

1971 Ambassadorial appointments as rewards for major contributions, the lack of enforceable reporting requirements, and an inability to enforce limits on contributions leads to the passage of the Federal Election Campaign Act (FECA). The Revenue Act of 1971, a companion piece of legislation providing funding for presidential campaigns, is passed as well.

1972 Congress adopts the FECA, a more comprehensive disclosure law. The act also establishes public financing for presidential candidates in the general election.

1974 The Federal Election Commission is constituted by Congress in the amendments of 1974 (P.L. 93-443). The amendments require full identification of contributions, disclosure reports by members of Congress and candidates, and place limitations on total expenditures for primary and general elections.

The dawn of the "modern" PAC era begins. There are about 600 PACs of all varieties. Prior to the FECA legislation (pre-1972) there were about 90 corporate PACs. By 1984, that number will climb to 1,600.

1975 The first six commissioners are appointed: two by House Speaker Carl Albert, two by Senate President Pro Tempore James Eastland, and two by President Gerald Ford.

1976 This method of appointments is declared unconstitutional in the Supreme Court's *Buckley v. Valeo* decision. New provisions under the FECA amendments of 1976 (P.L. 94-283) now require Commissioners to be appointed to six-year staggered terms by the President with the consent of the U.S. Senate. It limits combined contributions of individuals to both PACs and the national parties and requires PACs to keep accurate records of receipts and expenditures. But the decision strikes down limits on independent expenditures and provisions regulating spending on congressional campaigns.

Buckley v. Valeo also held that limiting what wealthy individuals can spend on their own races is an infringement of free speech. Now groups and individuals are allowed to spend as much money as they want in support of, or in opposition to, a candidate as long as those expenditures are not held to be public financing.

Congress does not disturb the public disclosure and public financing provisions of the existing federal election laws.

1976 Congress passes amendments to the act to conform to the Supreme Court's decision in *Buckley v. Valeo* and to ratify the FEC's decision in the SUNPAC case.

1979 Congress halts the practice of random audits of candidates' expenses. The FEC now reviews records only after finding "reason to believe" a violation has occurred. Congress, convinced by studies and experience that the 1974 amendments had discouraged citizen and party participation, adopts a new set of amendments.

The 1979 Amendments establish the distinction between "hard" and "soft" money. Voter registration and "get out the vote" activities on behalf of presidential candidates are exempt from expenditure and contribution limits. This exemption also applies to materials distributed by volunteers.

1984 Common Cause petitions the FEC to address the soft money problem and to find that all money spent on elections, including state elections, must be raised under FECA.

1986 The commission rejects Common Cause's petition. Common Cause files suit in federal court and a decision is handed down requiring the FEC to reconsider its regulations.

1987 U.S. District Judge Thomas Flannery agrees that FECA only applies to federal elections but orders the FEC to revise its rules to ensure that state parties are given sufficient guidance on how to allocate expenditures between federal and non-federal elections.

1988 No revision occurs.

1989 No new legislation is passed.

The Federal Election Campaign Act

The purpose of the 1971 Federal Election Campaign Act (FECA)[2] is to regulate the moneys contributed to campaigns for the U.S. House of Representatives, the U.S. Senate and the office of the President, including primaries and other parts of the nominating process. It also defines the extent to which U.S. corporations and individuals may participate in federal election campaign activities and what form that participation will take.[3]

Scope of the Act

The three principle areas covered by the act are:

1. Disclosure of the sources and uses of the various funds supporting candidates for federal office;
2. Limits on the amounts of contributions; and
3. Public financing of the presidential election process.

The FECA is administered and enforced by the Federal Election Commission (FEC), whose actions are governed by the Code of Federal Regulations.[4]

Another set of regulations—the Presidential Election Campaign Funding Act[5]—deals with definitions of candidates, contributions, detailed record-keeping required for reporting contributions, and preservation of the various records on campaign contributions. Subchapters of the act[6] deal with everything from the powers of FEC commissioners to various ways in which regulations will be enforced and information disclosed.

Who Is a "Candidate?"

An individual becomes a candidate when he or she raises and/or spends more than $5,000 per year to influence his or her election to a federal office. One can also become a candidate by authorizing another person to raise or spend money. It is not impossible, however, for committees to be formed without the "authorization" of the candidate and to spend considerable sums of money that will ultimately benefit the election of the candidate once that person is officially declared a "candidate."

When Does a Group of Contributors Become a Political Action Committee?

The FECA requires that a committee, club, association or other group of persons becomes a political committee once it receives contributions—from its members or other sources—or makes expenditures in excess of $1,000 in a single calendar year to support one or more federal candidates.

"Separate" funds of corporations, unions or other membership organizations can also become political committees regardless of the amount of their campaign activity. The political party, of course, almost automatically becomes a committee since it makes contributions or expenditures in excess of $1,000 per year, and most often receives contributions exceeding $5,000 a year. However, the law does make special provisions for political party committees.

Both the contributor and the committee to which an individual may contribute are legally responsible for making sure that the contribution does not exceed the federal limits. The individual cannot abdicate such a responsibility to a political committee.

Once a candidate for a federal office becomes a candidate—that is, when the campaign activity exceeds $5,000 in either contributions or expenditures —he or she must designate a Principal Campaign Committee. The candidate then files a statement of candidacy with the FEC. The committee (which can support only one candidate) must file a Statement of Organization with the FEC within ten days after its designation.

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[2] Passed in 1971 and revised in 1974 (following the abuses revealed by the Watergate Scandals), 1976, 1977 and 1979.

[3] These directives may be found in the Code of Federal Regulations (CFR) II CFR Ch I. Sections 114.3-12 (January 1, 1988 Edition).

[4] Title II—Federal Elections (IICFR)

[5] Contained in Title 2 of the U.S. code, Chapter 14, Subchapter 1, occupying 58 pps.

[6] Sections 431 through 455

It should be noted that a candidate, through his or her personal campaign committee, can contribute to the campaigns of other candidates. The committee can contribute $1,000 to each campaign in each election.

Defining Contributions

Contributions are most often made in the form of checks. In a few cases, cash may be given as long as it does not exceed $100 per year, per candidate. The law requires, however, that "anything of value" given to influence a federal election be considered a contribution. Therefore, the donation of office machines, furniture, mailing supplies, etc., is an "in-kind" contribution and is valued at the usual and normal charge for such a product. In the same manner, if individuals donate paid services such as might be provided by a pollster or printer, they have made an in-kind contribution in the value of those services provided. If the service provider sells its service to a candidate or committee at less than fair market value, the difference between what they would have charged, and what they actually charged, is counted as a campaign contribution.

Fundraising dinners and benefits are a popular way to raise funds for a candidate. The act requires that individuals who support these events report the full purchase price for a fundraising ticket. For example, if a ticket for a fundraising dinner costs $100 and the actual cost of the meal would be valued at $30, $100 must be recorded as the contribution, not $70.

In addition to cash contributions and donations of paid services, individuals may also volunteer their personal services. They may contribute any amount of time as long as the time donated is their own and not part of the time they spend on a salaried job. In other words, employers' time may not be used for voluntary services. There is no limit on the personal time that an individual may contribute to a campaign.

Individuals may also contribute certain expenses which are not reimbursed. For example, they can travel on behalf of the candidate and spend up to $1,000 during both the primary and general election campaigns in travel expenses. They can also spend an additional $2,000 for travel on behalf of the candidate's party. As expected, these volunteers can also hold various receptions in their homes, houses of worship or local community facilities, all for the candidate, and can spend up to $1,000 for food, beverage and related expenses. If they hold a reception for the benefit of the candidate's party, they can spend up to $2,000 each year for such expenses.

Corporate participation is clearly and narrowly defined. Some employees, stockholders or union members may use their organization's facilities (offices, mailing, or phones) in connection with volunteer activities conducted on behalf of a federal candidate. This activity must be conducted during off hours; if it exceeds the "incidental use" of the facilities, the owners of the facilities must be reimbursed for the costs. In general, use of such facilities for more than one hour a week or four hours a month will require reimbursement to the corporation or union for the usual and normal rental charges for such a facility. The reimbursement will, of course, be considered a contribution from the individual or committee and counted against the contribution limits.

Some candidates, faced with the considerable costs of mounting a campaign, may borrow money from supporters. But if you lend money to a candidate, or a political committee, you have made a contribution in that amount, even if you charge current interest rates on the loan. The outstanding amount of the loan counts as a contribution and must be recorded against the contribution limits provided in the act. When the candidate repays part of the loan, that decreases the amount of the contribution and the lender may then increase—if they wish—contributions up to the limit. Some candidates may seek bank loans for their campaign costs and, in order to guarantee the loans, ask supporters to endorse or cosign the loans. Endorsements and guarantees are also considered contributions and the endorsers and guarantors are equally liable for the purchase of the loan.

Primary Campaigns

Federal law now provides for partial funding of the campaigns of presidential primary candidates in the form of a matching payment system. The U.S. Treasury will match up to $250 of an individual's total contributions to an eligible candidate. In order for candidates to be eligible, they must have raised more than $5,000 in at least 20 states, that is, a total of over $100,000. Although individual contributors may contribute up to $1,000 to a primary candidate, only a maximum of $250 per individual can be applied towards the $5,000 threshold in each state. In other words, the candidate must come up with at least 20 individual contributors in each state or a total of 400 contributors overall.

In order for the candidates to receive their moneys, they must agree in advance to limit campaign spending during the primary to a total of $10 million plus a cost-of-living adjustment (COLA) to the present year. This adjustment is calculated by the Labor Department using 1974 as the base year. In 1987, for example, the COLA would have brought the spending limit to $22.2 million. The primary candidate must also agree to limit campaign spending in each state to $200,000 plus the COLA as previously described. In addition, candidates must spend no more than $50,000 of their own funds on the campaign.

General Elections

The final presidential nominee, as nominated and certified by the national political party at its annual convention, is eligible for a public grant of $20 million plus the cost-of-living adjustment—$46.1 million each in 1988. To be eligible to receive these U.S. Treasury funds, the candidates must agree to limit their spending to the amount of the grant and not to accept private contributions for the campaign. There is, however, an exception: private contributions can be accepted if they are set up in separate accounts and are used to pay solely for legal and accounting expenses that are incurred in complying with provisions of the federal campaign finance law. There is no limit on these kinds of expense reimbursements. The candidates may also spend up to $50,000 of their personal funds; none of these funds are counted against overall campaign spending limits.

FECA also permits individuals to make contributions of up to $20,000 a year to the national party committee and $5,000 a year to a state or local committee. Total contributions by such individuals to federal elections may not exceed $25,000 a year. (In other words, they could not contribute $5,000 to 50 different state party committees.)

Prohibited Contributions

Certain contributions are explicitly prohibited by the act. These include:

—Funds derived from the treasuries of corporations, national banks and labor organizations
—Contributions from firms or individuals who are government contractors (these can, however, set up PACs)
—Contributions from foreign nationals who are not permanent residents of the U.S.
—Contributions of cash in excess of $100 per campaign period
—Contributions given by one person but made in the name of another person

It should be noted, however, that spouses and employees of federal government contractors may make contributions from their personal funds. As noted, corporations and individuals under contract to the federal government and the sole proprietors of businesses doing business with the federal government are prohibited from making such contributions.

In some instances, a political committee may receive a contribution which may be in excess of the limits or from a source prohibited from contributing (e.g., federal contractor, foreign national). In such instances, the act requires that the committee either immediately return the contribution to the donor, or deposit it in a segregated account and determine within 30 days whether the contribution is legal. The committee must obtain evidence in writing that the contributing source is providing a legal contribution. If this cannot be confirmed, the contribution must be refunded.

Contributions by Non-profit Corporations

Some non-profit corporations, formed to promote various ideological causes, have been exempted from the act's prohibition on corporate expenditures. In the 1986 Supreme Court decision, *Massachusetts Citizens for Life* v. *FEC*,[7] the Court allowed the Massachusetts group to make political expenditures. Other groups have attempted to go the route of the Massachusetts Citizens for Life but with little success. In *United States Defense Committee* v. *FEC*, the U.S. District Court for the Northern District of New York found that the Massachusetts principles did not apply because in order for a non-profit organization to be eligible under the Massachusetts guidelines, it must have a policy of not accepting contributions from either for-profit corporations (which are flatly prohibited from making campaign contributions) or labor organizations. The United States Defense Committee had received donations from corporations which were members of the Committee, and thus they were prohibited under the general stricture against corporate-based contributions. This case was later annulled in the Court of Appeals on state-federal jurisdictional grounds.[8]

Disclosure Requirements

A principal purpose of the FECA was to provide for public disclosure of financing. It was thought that knowing who gave money to candidates, and how much they contributed, would act as a brake on undue influence. Thus, the act requires that an individual who becomes a candidate for federal office, as well as any group or organization which becomes a political committee and supports federal candidates, must register and file periodic disclosure reports on their campaign finance activities with the Clerk of the House, the Secretary of the Senate or the FEC itself. (From a practical standpoint, most file only with the FEC.) In addition, these individuals or committees must file with the Secretary of State, or equivalent state officer, in those states where the nomination or election of a particular candidate is sought.

All campaign finance reports filed by individuals and political committees are available for inspection, review and copying at the FEC. The commission maintains a complete set of records from 1972 to the present date. Each state, usually through its Secretary of State, also makes available to the public the reports of political committees active within the state.

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[7] Massachusetts Citizens for Life, Inc. v. FEC 589 FSUPP646 (d.mass 1984 7692d 13 (First Circuit, 1985) 479 U.S. 238 (1986)

[8] 861 F.2d. 765

As a rule, the FEC tries to make reports available to the public within 48 hours of their receipt by the commission. These reports contain detailed information on all contributions and expenditures in excess of $200, as well as the debts and obligations owed to, or by, the candidate or committee. In addition, the commission receives personal finance reports from candidates for the offices of President and Vice President, as required by the *Ethics in Government Act of 1978*. Incumbent office holders are not required to file with the FEC but they do file statements with Congress. Non-incumbent candidates, under new ethics regulations, must file ethics statements with the FEC.

Independent Expenditures

Independent expenditures are expenditures made to advocate the election or defeat of a specific candidate without either consultation or cooperation between the spender and the candidate or the candidate's campaign organization. These funds are often used to sponsor advertising on behalf of, or against, a candidate's background or principles. The most problematic aspects of independent campaign expenditures are accountability, i.e., tracking the amount of expenditures by a given group and what constituencies the group represents; the workability of the term "independent"; and the equality such expenditures may or may not provide in publicly funded elections.

Individuals making these expenditures must place a notice on all forms of communication (e.g., the billboard, leaflet, TV ad) explicitly stating that they paid for its costs and that it was not authorized by the candidate. They must also file with the FEC when the total amount of such independent expenditures exceeds $250 per individual, or organization, in a single year.

Unauthorized Committee

An unauthorized committee is a group of persons who are soliciting and expending funds for the election—or defeat—of a candidate without authorization by the candidate or the candidate's political committee. These committees are not permitted, under the law, to "include the name of any candidate in its [organization's] name." Nonetheless, some of these committees are able to evade this prohibition by excluding the name of the candidate in their official name, while simultaneously carrying out other fundraising "projects" using the candidate's name. Typically, the name of the candidate will appear prominently on the letterhead and within the text of materials produced by such unauthorized committees. The fine print for such letterheads or printed material may contain a disclaimer, allowable under the law, but this has not proved to be an adequate deterrent.

When Does the Contribution Count?

Generally, unless otherwise designated, if a contribution is made prior to the election, the contribution counts in the annual limit for the election year. If a contribution is made to a candidate the year after the election and is designated to pay off campaign debts incurred during the election, the contribution counts against the annual limit of the election year.

In a test case to determine the parameters of the limits of contributions applied after an election, the U.S. Court of Appeals in *Ted Haley Congressional Committee* v. *FEC*[9] reversed a lower court decision and ruled that the money given or loaned after an election, for the purpose of retiring campaign debts, must be counted as contributions made during the election year.

However, if a contribution is made to a party committee, or to a PAC, the contribution counts against the annual limit for the year in which the contribution is made, so long as it is not earmarked for a specific candidate.

Joint contributions by husband and wife are counted as individual contributions, thereby doubling the limit. Both persons must sign the check, or an attached statement, indicating they are each contributing to the candidate. Minors may also contribute as long as these children, under age 18, "knowingly and voluntarily decide to contribute." But the contribution must be money from the child's own resources (e.g., from a trust fund or savings account held in the child's name).

Going Out of Business

The act allows a political committee to terminate its operations and go out of business when it can certify to the FEC that it will no longer solicit or receive contributions or make any disbursements on behalf of the candidate or in the settlement of debts incurred in the campaign.

Some critics have suggested that the "settlement of debts" may provide a loophole for certain committees to receive unreported contributions. In effect, if these debts are settled at less than face value, the lending party may be making a significant contribution to the federal candidate. The FEC notes in its annual report that "the amounts involved are frequently substantial and the creditors are often corporate entities." The FEC would like Congress to clarify the limitations on these contributions in order to determine whether or not the settlement of debts actually constitutes a disguised contribution.

[9] Ted Haley Congressional Committee v. FEC, 654 F.Supp. 1120 (W.D. Wash. 1987, Rev'd, 852 F2d 1111 (9th Cir. 1988)

The Federal Election Commission

The structure of the FEC places it outside the normal model of an independent regulatory agency. There are six commissioners, appointed to six-year staggered terms by the President, with the consent of the Senate. No more than three members of the commission may be affiliated with the same political party, thus providing ample opportunity for deadlocked votes. In addition, the law requires four votes for the commission to do anything. The absence, illness, or abstention of two or three commissioners can effectively block all action.

Originally, commissioners were appointed two each by the Speaker of the House, the President Pro Tempore of the Senate, and the President of the United States. The Supreme Court ruled this method unconstitutional in the 1976 *Buckley v. Valeo* decision, saying that the method of appointment violated the separation of powers doctrine. The law was subsequently amended and the six commissioners are now appointed by the President with consent of Congress.

In December of each year, the six commissioners select one of their number to serve as chairman and one to serve as vice chairman for the following calendar year. The FECA requires that the chairman and the vice chairman be of different political parties and that a member may serve as chairman only once during any six-year term of office. The chair serves as the presiding officer at FEC meetings and as the spokesperson on behalf of the commission before Congress.

The Staff Director is responsible for all the administrative functions including disclosure and data systems operations and the management of staff personnel. The General Counsel is concerned primarily with conducting investigation of Matters Under Review, making recommendations for advisory opinions, and engaging in litigation where necessary to enforce provisions of the act.

Enforcing The Act

The FEC operates on a fiscal year 1990 budget of $15.3 million annually. The budget for 1991 is $17.1 million. The commission has received increases in its recent budgets but most of this—three-quarters—was simply used to maintain the same level of activity. The agency is not fully staffed in spite of the addition of 13 staff members this year. Congress authorized a staff of 264 persons but the budget only allows for the hiring of 258. Commission staff members point out that a tight budget has forced the commission to cut back on Clearinghouse contracts (which provide public access to FEC data) and on data processing equipment even though more and more people are seeking the contributions data contained in the FEC's voluminous records. During 1988, for example, the commission responded to over 64,000 requests for information, straining already thin resources. Critics of the commission's compliance and enforcement record attribute problems, in some part, to under-budgeting and understaffing by Congress.

Advisory Opinions

A certain amount of effort has to be spent simply clarifying the regulations and issuing various Advisory Opinions (AOs). The commission will issue AOs to any individual who raises questions regarding the application of the law to a specific factual situation. These opinions are the commission's best interpretation of the act as it stands. Of course, not everyone is satisfied with the advisory opinion they get—especially when it has an adverse impact on a particular candidate or election interest.

One group, the U.S. Defense Committee, attempted to obtain judicial review of an advisory opinion they received. The U.S. District Court for the Northern District of New York upheld the commission's advisory opinions. (That decision was annulled by the U.S. Court of Appeals for the Second Circuit, on the basis that "nothing in the legislative history of the act indicated that Congress thought the advisory opinions were reviewable.") In addition, the court pointed out that even if someone disregarded the advisory opinions, they were still entitled to the full benefit of enforcement procedures as described in 2 U.S.C. Section 437g, so that the advisory opinion was not in and of itself "final and binding."

Auditing Disclosure Information

The second major enforcement activity is the review of reports filed with the commission. The commission employs a staff of auditors to conduct a desk audit of every campaign's finance report. More than a few reports are deficient, in that they omit certain financial data or lump various financial categories together. When staff members of the reports analysis division find such omissions, they issue a routine request asking for additional information or a correction of a candidate's data. Approximately one out of seven of the disclosure reports that the commission receives is incomplete or incorrect. Should a correction not be made, however, the candidate's failure could become subject to FEC enforcement action.

On occasion, fraudulent operators will pretend to be the political representative or committee organizers for a particular candidate. They will solicit contributions "on behalf of the candidate," but quickly divert these funds into accounts for their own personal use. While the FEC has received complaints about this kind of fraud, it does not have, under the act, any direct authority to deal with the problem.

Up until 1979, the FEC had authority under the FECA to conduct random audits of a committee's records. This authority was removed by Congress in the 1979 amendments to the act. The commission believes this was a mistake, and that random audits are an extremely effective mechanism for motivating voluntary compliance. They cite the experience of the Internal Revenue Service, pointing out that random audits have proved to be an effective motivator for tax compliance. Further, they maintain that this would improve the public's perception of the effectiveness of the commission's enforcement efforts. In its legislative recommendations for 1989, the FEC suggested that they be revested with the authority to conduct random audits. Further, they suggest that they would randomly select political committees from a pool established using threshold criteria, such as the total amount of contributions or disbursements. They would then conduct random audits of committees within this pool.

Another method, more politically neutral and cost effective, would be to randomly select committees from all congressional districts or to select congressional districts themselves and to audit all of the committees within those districts.

Investigation of Complaints and Violations

Although some violations show up through routine review of committee reports, most come to the attention of the FEC through a complaint filed by an individual or group, or through the media. Individuals filing a complaint must provide their name, address and telephone number and a clear statement of their view of the facts concerning the purported violation. This complaint must be sworn to by the person initiating the complaint and notarized. Complaints are funneled directly to the Office of the General Counsel at the FEC, which then begins the initial determination of the validity of the complaint. If the complaining party is really alleging a violation of another law or if the complaint is deemed invalid in the professional judgment of the counsel, it is rejected. If the complaint is not rejected, however, a case file is opened on the complaint and an enforcement action begins.

The FEC has exclusive jurisdiction with regard to only the civil enforcement of the act. (The FEC refers to its various cases as "Matters Under Review.") Criminal prosecutions are undertaken by the United States Department of Justice, either by referral from the FEC or on the initiative of the U.S. Attorney in a particular district. (Usually, the local U.S. Attorney comes into possession of knowledge—sometimes as a result of a corollary investigation—that a criminal violation of the act has occurred.)

The commission's first step in enforcing the act is to provide notice and an opportunity to respond. Then an investigation is conducted and a voluntary agreement of compliance is sought. The only exception is the routine late filing of reports, in which case settlements are sought prior to investigation. According to the commission, a number of transgressions arise more out of ignorance than malice and this is usually a quick and effective way to remedy minor violations.

The commission can levy a civil penalty which may not exceed $5,000, or a sum equal to the amount of the contribution in question, whichever is the greater amount. In cases where the commission is convinced that a violation was "committed [as] a knowing and willful violation of the act," it has the authority to increase the civil penalty to $10,000 or an amount double the expenditure in question. In one case, the commission levied civil penalties of $190,000.

The FEC's general counsel believes the adverse publicity that arises from a penalty imposed on a candidate or committee is often a more effective deterrent to future transgressions of the act than is the civil penalty itself. But the FEC reports that the civil penalties are often not large enough to deter some individuals or large committees from violating the act. At the present level, they are simply calculated by some players as a "cost of doing business" in the campaign contributions arena.

Even though the charge is civil and not criminal, the potential publicity associated with an FEC investigation can be detrimental to political candidates. Although the FEC statute which authorizes such investigations does contain confidentiality provisions, it is seen by some as prejudicial to subjects of an investigation. One reason is that the wording contains the language "the commission finds reason to believe a violation of the act has occurred." Present procedure requires the commission to arrive at a finding that a violation has occurred before it can begin an investigation. But many of the investigations later determine that no violation has taken place. In effect, the commission is judging the subjects of its investigations guilty before the facts are known. However, the matter is not made public until it is closed. The commission would like to change the wording of the statute to read "may have occurred."

Enforcement Delays

Critics of the FEC complain that enforcement is weak and that the FEC does not have the ability to deal with complaints and perceived violations in a timely and rigorous manner. As of September 1989, the Office of General Counsel had 326 open cases being handled by 17 staff attorneys each managing, on average, 19 separate cases—substantially higher than the normal case load. It is not unusual in the Justice Department, for example, for two or three attorneys to be assigned to a single case. The FEC relies completely on its own staff; the general counsel's office has no field investigators or regional offices to facilitate field investigations.

In acknowledging the problem that slow enforcement poses for fulfilling its responsibilities, the commission, in requesting additional enforcement staff, testified in 1989 that "it must be remembered that some of the delays in enforcement are outside the control of the agency. For example, opportunities for a respondent to respond, problems in obtaining evidence or testimony, and time spent conciliating all add to the time it takes to complete cases."[10]

In addition, the commission, because it is split evenly among Republicans and Democrats, sometimes reaches a stalemate on enforcement recommendations forwarded by the Office of General Counsel. These stalemates may contribute to public perception that enforcement is sometimes lax or absent. In other instances, the commissioners may reject the counsel's recommendation for enforcement action. In the past, commissioners were not obligated to provide the public with written reasons for their rejection of the counsel's recommendation. But in *Common Cause* v. *FEC,*[11] the court ruled that, in all future complaint-generated cases which involved a 3-3 tie vote on proceeding with the investigation, the commissioners who voted against proceeding would have to issue public statements clarifying why they had failed to adopt the counsel's recommendation.

Then the courts went further. During December 1986, the counsel recommended that the commission proceed with an investigation of the Reagan campaign. The commission voted 4-2 not to proceed with the investigation. A district court ordered the commissioners who voted against the investigation to describe the reasons behind their decision. The commissioners provided what they thought was a satisfactory rationale; but the court demanded a fuller explanation. Finally, in July 1988, the commissioners submitted a second set of statements, and in September, the court agreed to a dismissal of the Common Cause complaint.

[10] "FEC Responses to Questions Posed by the Subcommittee on Elections of the House Committee on Administration in Connection with Fiscal Year 1989 Budget Requests.

[11] Common Cause v. FEC, 692 F. Supp. 1391 (D.D.C. 1987) 692 F. Supp. 1397 (D.D.C. 1988)

Reform Of The Federal Election Commission

> "It is difficult to wage a public awareness campaign on campaign finance abuse by focusing on the problems of the Federal Election Commission. The FEC's responsibilities are little known to the public and so it is easy for politicians to grandstand on reform issues. Congress knows that little will be done to change the system they created. The FEC simply doesn't have the power—in principle and in real budgetary clout—to keep the democratic system honest. Congress only voted against a pay raise for itself because it acknowledged the reality of public pressure. The pay raise issue was easy for the press and the American people to target. The FEC and campaign finance abuses are difficult to put your hands around."
>
> —a senior congressional aide

While minimum intrusion by a federal agency remains a priority among most reformers, the structural weaknesses of the FEC have created problems for enforcing the FECA. The difficulties faced by the FEC, and the manner in which the commission functions, are seen by many reformers as an outcome, "an intended consequence," of the FEC's relationship to Congress. Reformers urge a streamlining of the FEC's procedures and a clarification of the legal role and authority of the commission. (Exhibit on page 17 presents a summary of proposed reforms for the FEC.)

From its creation, the commission has functioned as a quasi-independent agency. Congress established a "weak" regulatory agency by providing for a commission balanced in partisanship, subject to legislative veto and constrained by specific procedural requirements. Congressional powers of oversight and allocation of the FEC's budget leave the commission without resources to enforce the campaign laws effectively. For example, Congress, by voice vote, withdrew the FEC's power to conduct random audits of congressional campaigns in 1979. Moreover, the FEC's recommendations are not subject to action by Congress.

The FEC is criticized for its inconsistent decision-making in enforcement matters and for its failure to adhere to established principles. According to Common Cause: "Rulemaking can provide clarification of the act that is broader than the fact-specific focus of advisory opinions or enforcement actions. Standards promulgated by the FEC as rules can thus provide guidance to all persons and organizations who are subject to campaign finance laws."[12] The U.S. District Court and the U.S. Court of Appeals for the D.C. Circuit have reinforced the need for the commission's decision-making to be well-reasoned and clearly articulated.

The commission is criticized primarily for the following reasons:

- —the absence of a permanent chairman with a strong leadership role;
- —the absence of adequate accountability on the part of appointed officials;
- —frequently deadlocked decisions by the commissioners;
- —the provision for ex-officio members from the House and Senate;
- —lack of investigators trained in understanding the complexities of financial reporting;
- —the requirements of the commission to proceed through deliberate stages of repetitive voting;
- —reliance on ad hoc Advisory Opinions rather than the establishment of policy through regulations;
- —indirect delegation of responsibility to staff without adequate policy direction; and
- —focus on non-controversial matters.

Institutional Reform via Strong Management

The qualifications required for appointment to the FEC have faced strong criticism from the beginning. The requirement for partisanship steers the selection process of the commissioners as reflected in the statute:

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[12] *The Failure-to-Enforce Commission* (Washington, DC: Common Cause, September 1989), page 34.

Summary of Proposed Reforms for The FEC

Recognizing that maximum public information about the financing of political campaigns requires new disclosure rules, reform advocates call on the FEC to address the following issues:

1. Adopt effective allocation guidelines with the expressed intent of preventing national committees from using soft money to pay for activities that influence federal elections. Reform legislation should foster intra-party relationships by allowing state and local party committees to continue to participate.

2. Develop a centralized procedure at the national level to collect and make available information regarding the contributions and expenditures of soft money by analyzing the conduits through which all soft money is channeled. Define the types of contributions and expenditures to be analyzed. Coordinate procedures for gathering and disseminating information with state and local campaign reporting offices.

3. Establish an allocation formula on how each soft money dollar should be counted as a contribution to electing federal candidates and therefore subject to federal limits. Whether this allocation is 100 percent, as Common Cause advocates, or a less stringent solution which recognizes that most soft money is contributed to help the national ticket, will need to be determined.

4. Prohibit national party committees from setting up disclosure-exempt, non-federal accounts, and permit such committees to collect and spend only FECA-regulated monies, exempting money raised for party committee office facilities. Extend the FEC mandate to keep separate accounts of soft money disclosures.

5. Prohibit soft money fundraising through nationally-centralized techniques; foster party involvement in candidates' campaigns.

6. Require state and local party committees to disclose all soft money received in their non-federal accounts. Mandate federal disclosure requirements if state laws remain inadequate.

7. Regulate lobbying and tax-exempt organizations that give or receive soft money.

8. Encourage all states to standardize their disclosure laws without intruding into state election laws.

9. Authorize the FEC to audit any candidate where there is reason to believe a violation may have occurred.

10. Permit the FEC to become the direct recipient of Congressional candidates' financial reports instead of the House Clerk or Senate Secretary. All reports should be filed directly with the FEC, thereby eliminating the current "point of entry" filing procedure with the Clerk of the House and Secretary of the Senate.

11. Disclosure has focused on examining the FEC reports; new emphasis is calling for examination of how the money is spent and whether or not the money raised is being accurately recorded. Increasing requirements for disclosure, however, do not necessarily mean that there is consensus on ceilings for soft money.

12. Require the FEC to recommend the use of a standard software program to be used by political committees. Any other programs should be able to be converted to the standard program.

13. To make public disclosure more effective, the data should be aggregated and indexed so that patterns of money flow can be examined more clearly.

14. Facilitate the timely disclosure of data before an election. For example, restructuring the FEC's audit procedures to reflect fewer expected challengers once state-by-state expenditure limits are repealed may enable the FEC to focus on receipts during the audit process.

15. Institute a new audit policy that acknowledges that the audit process serves to check up on other FEC procedures for obtaining compliance with the act. Improvements in the audit process will require the hiring of trained investigators who are experienced in looking for patterns of giving which raise questions about potential campaign finance violations.

16. Contributions to state parties should be reported by all party committees to the FEC. This improvement is proposed because contributor gifts are currently publicly available only in separate reports from state parties with differing disclosure requirements.

"No more than three members of the commission appointed... may be affiliated with the same political party." Conflict of interest, party loyalty and deadlocked decisions are frequently cited as reasons for inaction on the part of the commissioners. Reform proposals center on implementing new substantive criteria (e.g., experience, integrity, impartiality and good judgment) to replace partisanship. In the words of one congressional staffer:

> "The backgrounds of the commissioners ensure party loyalty and that the routine of deadlocked decisions will continue as long as the number of commissioners goes unchallenged. It is obvious to anyone involved with campaign finance that it is in Congress' interest to leave the FEC exactly where it is. Whenever the FEC begins to act too aggressively, as it did with the random audits, Congress will roll back the FEC's power simply by slashing its budget or amending the law."

The chair's one-year tenure at the FEC is unlike similar roles in truly independent regulatory commissions where the chair has the power to hire the principal staff and manage the agency during his or her tenure. The structural arrangements set out by Congress deny policy-making authority to the FEC. The problems of organizational inefficiency and lack of clarity in policymaking are aggravated by lack of continuity in leadership. In effect, the FEC's structure leaves it with weak management and little direction. Determining the effectiveness of the law vis-a-vis loopholes and ineffective criminal charges—as well as determining the appropriate procedural framework for carrying out the day-to-day activities—could be achieved through strengthening the chair's role.

Reformers maintain that to establish the FEC as an independent agency, similar to other governmental regulatory agencies, requires the commission's mandate to be executed with an aggressive, objective and even-handed approach. Further, they say, fixing administrative and managerial responsibilities is the first step toward establishing organizational stability, improving planning and budgeting, and assuring greater public accountability. A fixed-term appointment, they say, would permit the chair to appoint a staff director responsible for overall management operations. Reformers maintain that commissioners who serve for a fixed period and cannot be removed for political reasons achieve an independence that is important in administering the intent of the law and managing the problems which arise in the political process.

Disclosure Under the FECA

Public disclosure is the essence of the FECA and is considered the commission's "greatest achievement." The *National Journal* comments: "Even the commission's harshest critics applaud its prompt and thorough public disclosure of the campaign finance information that the candidates and political committees file."[13]

As discussed earlier, the FEC relies upon public disclosure and not civil penalties as the primary deterrent against campaign finance abuse. Consequently, the commission does not often pursue malfeasance charges against violators. The current penalties are not a strong deterrent; they pale in comparison to what the organization may have gained financially. Also, with the tremendous increases in contributions combined with new technologies in raising large cash sums, the FEC's current methods of disclosure are viewed as neither comprehensive nor timely enough to accommodate the volume and complexity of finance reporting.

Soft Money

It is alleged that the use of soft money circumvents the intent of public financing of presidential elections, which was meant to eliminate the dependence and the ability of candidates to raise large sums of money from individual contributors. (For a definition of "soft money," see exhibit on page 19.) Sharp increases in the use of soft money raised with the assistance of the national political parties is placing pressure on the FEC to improve its regulatory structure and disclosure requirements.

The 1979 FECA amendments established the principle of allocation to certain types of activities that bear directly on publicly financed presidential campaigns. They also made inapplicable any federal spending limits on state and local party committees paying for such activities. Soft money was permitted as a means to empower state and local party committees to participate in the publicly financed presidential campaign, restricting usage to spending related to voluntary activities. Senate and House races are regulated by contribution limits but no expenditure limits apply.

In the 1988 presidential election, each party set ambitious goals of raising at least $50 million, much of it in soft money, on top of the $46.1 million each ticket received from the federal treasury. Given the magnitude of the fundraising effort and the level of involvement of presidential committees, most observers agree that soft money has influenced federal elections.

Political parties are currently responsible for demonstrating that their allocable activities in connection with federal elections are financed by federal funds. Lack of clear and consistent disclosure rules undermines the basic intent of the federal financing scheme, making it difficult for the public to determine the extent to which soft money contributions are channeled to federal election campaigns. Reform proposals aim to provide clear, consistent and objective guidelines in establishing allocation formulas not now present in the current accounts procedure.

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[13] Carol Matlack, "Guide to the Decision Makers," *National Journal*, June 10, 1989, p. 1529.

Monitoring soft money accounts is difficult because the funds are not reported in a consistent manner by state election committees, which oversee these "non-federal" accounts. In many cases, vast sums of money are not reported at all.[14] There is little guidance on allocation procedures, and most states impose no requirement on committees for reporting the allocation formula used.

Although most states require candidates, parties, and other political groups to report their financial activities, they do so with varying degrees of detail. Reports are often not systematically and reliably compiled because state governments are unwilling or unable to allocate the budget needed to gather this information in some reportable form. There is almost universal agreement that disclosure rules need to be broadened to include soft money, and that fuller accounting of receipts and expenditures, for example, is paramount. Disclosure is described as the "single greatest check on the excesses of campaign finance."[15]

Apart from allocation formulas, the FEC does not have the authority to regulate soft money. To change the law requires congressional approval; questions of federalism—of what the federal government can or should do about state political activity—resurface as the argument for maintaining only the current requirements.

Reformers say that the lack of comprehensive disclosure rules makes it difficult for the public to know how expenditures are being allocated. The FEC maintains that, if money influences federal elections, it must be raised under the FECA and that this influence must be shown. Common Cause argues that virtually all money spent on all elections in this country influences federal elections and must therefore be regulated under FECA. The court in *Common Cause* v. *FEC* expressly rejected the Common Cause argument and said that allocation of expenditures was proper.

The commission continues to experience internal discontent. In February of 1988, it published a notice of inquiry seeking comments on proposed rule changes regarding soft money, and during September and December of 1988, representatives from the Democratic and Republican parties, as well as Common Cause and the Center for Responsive Politics, participated in hearings on the issue. While FEC Chairman, Thomas Josefiak noted that the "commission will vigorously pursue any soft money complaint before it;" he also admitted it cannot generally prohibit or limit the raising of soft money for non-federal purposes by virtue of an imputed or tangential effect on federal elections. Not unexpectedly, the Democratic and Republican committees could find no evidence that soft money was being improperly used and saw the issue as one of perception fueled by a critical media.

Soft Money

The term "soft money" appears throughout this report and is a pervasive term in any discussion of campaign finance. The Congressional Research Service defines the concept as follows:*

"Soft Money refers to money which may indirectly influence the outcome of Federal elections, but which is raised and spent outside the purview of Federal election laws and which would be illegal if spent directly in connection with a Federal election. The significance of soft money stems from several factors:

(1) that many States permit—in connection with State-level campaigns—direct union and corporate contributions (prohibited in Federal races) and amounts from individuals far in excess of the $25,000 which Federal law permits;

(2) that Presidential candidates who accept public funding in the general election may not spend any money from private funds (other than the specified amount which the national parties may spend on their behalf); and

(3) that the 1979 FECA Amendments permitted State and local parties to spend unlimited amounts on grassroots organizing and voter drives aimed at promoting the entire party slate (although the portion of funds allocated to support Federal candidates must be raised and spent in accordance with Federal law).

In recent Presidential elections, both national parties have engaged in extensive efforts to raise millions of dollars for their State affiliates, in part at least to boost the national tickets; in 1988, an estimated $25 million in soft money was raised by each of the major parties, leading to charges of circumvention of the spending limits imposed on the Dukakis and Bush campaigns. (Such activity would generally have to be disclosed at the State level.)"

Source: Campaign Financing," Congressional Research Service *Issue Brief*, December 18, 1989, p. 5.

Expedited Enforcement

The turnaround time for enforcement of FEC regulations is often too long to correct abuses that are in progress. In a campaign, for example, certain abuses may be observed being committed but the commission must operate within the administrative procedures set forth in the law, which mandate that a person or committee be given 15 days to respond to a complaint. Instead, commission staffers would like Congress to provide the authority for the initiation of a civil injunction procedure, allowing the commission's counsel to go directly to a federal district court and seek injunctive relief in the form of a restraining order. The commission recommends that they be given such authority when four conditions are met. These are:

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[14] *Soft Money—A Loophole for the '80's* (Washington, DC: Center for Responsive Politics, 1985), p. 4.

[15] Larry Sabato, "Executive Summary," *Study on Campaign Finance* (Washington, DC: Project for Comprehensive Campaign Reform, April 1989), p. 5.

1. The commission staff is in possession of evidence indicating that the persons involved are likely to commit a violation;
2. The failure of the FEC to act immediately will result in irreparable damage (possible loss of an election) to a party affected by a potential violation;
3. Expeditious action, in the form of an injunction, will not result in undue harm or prejudice to the interest of the parties enjoined; and
4. The interest of the general public is best served by an expeditious handling of a matter under review.

These are not four separate conditions. Rather, they make up a four-part requirement that is derived from the long-standing judicial test for issuing a preliminary injunction in court.

Fraudulent Operators

Internally, the FEC is requesting the authority to deal directly with fraudulent operators soliciting contributions. The commission is also pressing to deal directly with operators of unauthorized committees.

Can The Act Be Reformed?

Members of Congressional committees, as well as FEC officials, are reluctant to predict the possibilities for the passage of laws amending the act. There are several factors that mitigate against such laws being passed. Some of these are:

1. Most congressmen are reluctant to change the rules. They are well-acquainted with present regulations, and support the proposition that it is "better to deal with the enemy you know than the one you don't."
2. Both parties are expert in crafting amendments designed to place the opposing party at a disadvantage. Thus, very few of the proffered amendments could be construed as bipartisan.
3. Mutual distrust between the political parties leads to suspicion that proposals might be "Trojan horses."
4. Both parties have grown accustomed to using the available soft moneys. They are reluctant to change the existing system unless there are offsetting *quid pro quo* changes that neutralize any campaign advantage an opponent might gain.

Since active reformers are hesitant to tackle the FEC, they concentrate instead on individual, issue-by-issue campaign finance reforms. For advocacy groups, the next target is congressional elections. Ellen Miller of the Center for Responsive Politics says most reformers feel that, with the exception of the soft money issue, an effective system for monitoring presidential campaign finance is in place, and that the presidential system could be used as a model for new rules on congressional campaign funding. Issues of concern to reformers of the general campaign finance system include:

- the high cost of running a political campaign, which demands ever increasing amounts of special interest money and often prevents qualified candidates from running;
- the proliferation of PACs, and the perception that they exercise undue influence on government;
- the degree to which soft money, on which there are no reporting requirements, influences politicians and circumvents contribution limits so that no one knows how much money has been given or where it came from;
- the amount of time politicians must devote to fund raising, which takes incumbents away from the job they were sent to Washington to do;
- the length of political campaigns that often run a year or more, exhausting both candidates and voters, and increasing the likelihood of negative campaigning;
- advantages enjoyed by incumbents, which make for an "uneven playing field," and may be the primary reason behind the high rate of return of incumbent Congressmen to office (over 98 percent in 1988);
- negative campaign advertising which escapes regulation or oversight;
- questions of ethics, such as those raised during the controversy over former Speaker of the House Jim Wright's acceptance of book sales as a substitute for honoraria, former Congressman Tony Coelho's questionable campaign tactics, or the "Keating Five;" five senators accused of using improper influence with federal regulators on behalf of Charles Keating's Lincoln Savings and Loan; and
- the decline of the political party as the primary vehicle for voter turnout and for generating voter coalitions.

Neither the FECA nor its subsequent amendments provide oversight or regulatory authority over these and other areas of concern. A number of bills have been introduced in Congress that would address some of these concerns, and the administration has introduced a package of its own. (See exhibit on pages 22-23 for a comparison of Republican and Democratic reform proposals.) Majority Leader George Mitchell and Minority Leader Bob Dole have each named negotiating teams to try to resolve their parties'

Three Competing Plans for Rewriting . . .

	Current law	Democratic plan
Spending limits	No limits on how much candidates may spend. The Supreme Court ruled in 1976, in *Buckley v. Valeo*, that limits must be voluntary.	Limits are based on state population, ranging from $950,000-$5.5 million in a general election; candidates could spend an additional 67 per cent, up to a maximum of $2,750,000, in primaries. the general election limit could be raised by as much as 25 percent in federal funds to match individual in-state contributions of up to $100 each.
Contribution limits	Individuals may give a candidate up to $1,000 in both a primary and a general election and give $20,000 to a national party committee. No individual may contribute more than $25,000 in an election cycle.	Individual limits per candidate would stay the same, but the total ceiling would be raised to $30,000. State parties would be eligible for the same $20,000 as national party committees.
Political action committees	PACs may give $5,000 to a candidate in both a primary and a general election and $15,000 to a national party committee.	PACs could not contribute to candidates. National party committees could accept no more than two cents per voter from all PACs. The $15,000 national party lids would also apply to state parties.
Party contributions to candidates	National and state parties are permitted to make inflation-adjusted expenditures on behalf of a candidate, ranging from $50,280-$1,073,478, depending on the state's population.	The limit would not apply to direct-mail fund-raising activities that make only "incidental reference" to a candidate.
Public financing and incentives	No public financing for congressional candidates. Candidates are entitled to a broadcaster's "lowest unit charge"—the rate it charges its best customers—for advertising during the 60 days before general elections and 45 days before primaries.	Candidates receiving 10 per cent of their general election spending limit from small, in-state contributors would be eligible for public financing—through a voluntary federal tax checkoff fund—equaling 70 percent of the spending ceiling; for reduced broadcast postal rates; and for vouchers paying for one-to-five-minute advertisements in the final five weeks.
Independent expenditures	The Supreme Court has barred restrictions on expenditures by groups that have no links to a candidate.	Expenditures by groups registered to lobby would not be deemed independent of a candidate. Candidates who are targets of such expenditures would have their spending limits increased by that amount and would be eligible for public funds.
Bundling	Groups and individuals may solicit or receive money from several contributors and "bundle" the funds for a candidate.	Bundling could not be in excess of PAC or individual contribution limits.
Party "soft money"	Contributors may evade federal limits if they contribute to state and national party activities not directly related to a federal campaign.	Money raised by state parties to help federal candidates would have to be disclosed and would be limited to 30 cents per voter in each state.

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. . . Congressional Campaign Finance Law

Republican plan	Bipartisan experts	
No change from current law.	Would set "reasonably high limits" that give candidates adequate opportunity to communicate with voters and reflect added costs of running in less populated states and in states that require advertising in adjacent states. A limited amount of in-state contributions would be exempt from limits.	**Spending limits**
The $1,000 limit would be cut to $500 per election for out-of-state contributions. Contributions to a national party committee and to Senate and House compaign committees would be exempt from the $25,000 ceiling. If a candidate spends more than $1 million of his or her own funds, no individual or party limit would apply to contributions to opponents.	Would allow a "modest increase" in the $1,000 limit to reflect inflation since its 1974 enactment. Contributions to party committees would be exempt from the total or subject to a significantly higher limit.	**Contribution limits**
PACs would be abolished. If a court found this ban invalid, the contribution limit would be cut to $1,000 per election.	After total PAC contributions reach a specified level—perhaps a third—of a candidate's spending limit, the maximum for each PAC would be cut to $2,500. PACs would not be allowed to contribute after an election to retire a candidate's debt.	**Political action committees**
Certain organizational activities would be exempt from the limit, such as research, voter registration and get-out-the-vote drives.	There would be "generous allowances" or even no limits for organizational activities such as research, voter registration and get-out-the-vote drives.	**Party contributions to candidates**
No public financing. The lowest unit charge would apply to all time slots, not just those designated by broadcasters, the current practice. Senators could not send unsolicited franked mailings during the year they are up for election.	No public financing. Broadcasters would provide eight hours of free time to the major parties each year, with guaranteed prime-time and pre-election slots. Candidates would receive reduced postal rates, and in-state contributors would get a 100 percent tax credit.	**Public financing and incentives**
Groups making independent expenditures would have to make complete and timely public disclosure.	Independent expenditures by union, corporate and trade association PACs would be barred.	**Independent expenditures**
PACs and registered lobbyists would not be allowed to bundle individual contributions, but party committees could.	Bundling by corporate and union PACs or by registered lobbyists would be prohibited. Permissible bundling contributions, and the costs incurred, would be fully disclosed.	**Bundling**
No limits would be placed on soft money, but the parties would have to fully disclose all such money intended for federal candidates.	Clear lines would be drawn between federal and state campaign funds. All national and state party spending would be disclosed and some restrictions placed on nonfederal spending that may support ticketwide activity.	**Party "soft money"**

differences on the issue. The lead negotiators were Democrat John Kerry of Massachusetts and Republican Mitch McConnell of Kentucky.

Both Mitchell and Dole, however, have downplayed expectations. The Republican and Democratic packages differ sharply. The Republican campaign finance bill (S. 137) outlined on May 1 by Senator McConnell would eliminate PACs and significantly enhance the role of political parties in elections, playing to a GOP strength—the party often raises more money than it is allowed to spend under current limitations. Senate Democrats have outlined their own package for reform, which would set spending limits for campaigns and offer public financing to candidates who abide by them. It would also bar PAC contributions to Senate candidates.

Public and Private Interest Groups

Two Washington-based public interest groups—Common Cause and the Center for Responsive Politics—have evolved as important forces in generating support for campaign finance reform. The National Association of Business PACs (NABPAC), which generally represents business' interests, has issued a response to the administration's proposal supporting the plan in general but disagreeing with its recommendations to eliminate PACs.[16]

Virtually every private sector organization concerned with the issue calls for immediate and comprehensive campaign finance reform of some type. Experts, who before the 1988 elections and the ensuing ethics scandals would have given campaign finance reform virtually no chance for passage, now say there may be a chance for some action in Congress, either on the President's proposal or on a compromise in House and Senate committees.

Most experts agree that until the FEC is given a broader mandate and more regulatory authority, any attempts to overhaul the campaign finance system will be unsatisfactory in the long term, and the abuses the reforms address will simply "pop up" elsewhere. However, Larry Sabato, election analyst and author of several books on the campaign finance system, thinks there are some steps to be taken which would be worthwhile. He says: "The alternatives in campaign financing are sometimes seen as an unappealing choice between leaving a deteriorating system alone and instituting bad reforms. But there are options which, properly chosen, offer changes that address both corruption and unrelated campaign finance problems."[17]

Million Dollar PACS

TOP CONTRIBUTORS TO FEDERAL CANDIDATES, 1987-1988

National Association of Realtors	$3,045,769
International Brotherhood of Teamsters	$2,865,224
American Medical Association	$2,315,646
National Education Association	$2,104,689
National Association of Retired Federal Employees	$1,974,850
United Auto Workers	$1,953,099
Association of Trial Lawyers of America	$1,919,558
National Association of Letter Carriers	$1,732,482
American Federation of State, County and Municipal Employees	$1,658,386
International Association of Machinists	$1,492,780
National Association of Home Builders	$1,452,958
United Brotherhood of Carpenters	$1,357,998
National Association of Life Underwriters	$1,329,150
American Telephone & Telegraph Co. Inc.	$1,305,112
Air Line Pilots Association	$1,209,500
National Automobile Dealers Association	$1,202,420
International Brotherhood of Electrical Workers	$1,194,690
Auto Dealers & Drivers for Free Trade (import car dealers)	$1,158,700
American Bankers Association	$1,151,050
United Food & Commercial Workers International Union	$1,147,610
National PAC (pro-Israel PAC)	$1,134,500
Seafarers International Union	$1,083,415
AFL-CIO	$1,006,096

Note: These are direct contributions by PACs to political candidates. "Independent expenditures," or funds PACs spend in support of a candidate on such items as advertising or polling, are not included. The National Association of Realtors made $1.3 million in independent expenditures, the import auto dealers $1.4 million and the American Medical Association $836,000. If the list included independent expenditures, three PACs would be added to the million-dollar list: the National Rifle Association ($2.3 million), the National Committee to Preserve Social Security ($1.6 million) and the National Right to Life Committee ($1.5 million).

Source: Federal Election Commission

Reforms Most Often Suggested

Eliminate or Reduce Contribution Limits of PACs

PACs, corporate, labor, and ideological, have become one of the largest single funding sources for candidates over the past several years, contributing some $159 million to campaigns during the 1988 election. That translates to 49 percent of all revenues received by candidates for the House, and 31 percent of Senate candidate revenues, according to figures compiled by the Center for Responsive Politics. A final FEC report on PAC spending in the 1987-88 election cycle shows that a relatively small number of PACs gave much of the $159 million in PAC money received by politicians (see exhibit on page 24). The number of PACs registered by the FEC grew from 608 in 1974 to 4,828 by the end of 1988. Interestingly, however, that number dropped to 4,178 in 1989.

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[16] "NABPAC Supports President's Overall Campaign Finance Reform Initiative But Disagrees With PAC Recommendations," *Media Alert*, June 29, 1989.

[17] Larry Sabato, *Campaign Finance Reform Ideas: The Good, the Bad and the Ugly* (Washington, DC: Project for Comprehensive Campaign Finance Reform, April 1989), v. 2, p. 5.

Some argue that, even if PACs are excessive, to eliminate them would simply set clever campaign operatives to work devising new ways of raising the vast amount of money it takes to run a successful campaign.

The administration's campaign finance reform package calls for elimination of all PACs supported by corporations, unions or trade associations. Independent contribution limits would be reduced from $5,000 to $2,500. Other proposals call for limits on the contributions individual candidates may accept from all PACs, or for cutting the amount each PAC may give to an individual candidate. A set of recommendations submitted in March 1990 to the Minority and Majority Leaders of the Senate calls for leaving in place the current $5,000 limit on PAC donations to individual candidates, but prohibiting use of PAC funds for campaign debt retirement.

Campaign Spending Limits

The cost of running campaigns has skyrocketed in recent years. The average Senate campaign cost nearly $4 million in 1988; the cost of the average race for the House was $270,000; and the number of high-budget individual races has doubled since 1984. A total of 138 House races topped the $500,000 spending mark in 1988, and 20 House races cost more than $1 million.

A serious side effect of the cost of campaigning is that members of Congress necessarily spend enormous amounts of time raising money for campaigns, particularly in the House. Because they must run for election every two years, the pressures of campaigning and raising the funds to pay for it are never far from sight and increasingly more time and energy must be spent filling campaign chests, leaving less time for policy and lawmaking.

Both the House and Senate are considering proposals for campaign spending limits, established on a state-by-state basis, and the Senate bill is tied to back-up public financing. The Senate bill also provides for reduced broadcast and mailing rates, and for limits on personal spending by candidates. Both bills also call for doubling the federal income tax check-off rate.[18]

Republicans generally oppose spending limits on the grounds that this would diminish participation in the electoral process; it is also well-known, of course, that they enjoy an advantage over Democrats in fundraising capabilities.

Public Financing

Supporters of public financing say it reduces the influence of special-interest money and provides an opportunity for candidates who might otherwise be shut out by wealthy or well-connected opponents. Opponents believe public financing helps lock in the built-in advantages of incumbency by limiting a challenger's ability to raise money. They also contend that it weakens party unity and allegiance by encouraging fringe candidates.

Of course, presidential campaigns have been publicly financed for some time. Congressional races, however, are not publicly financed except where individual states and local jurisdictions have adopted such programs. A 1988 proposal for federal financing across-the-board, led by Congressional Democrats, fell victim to a Republican-led Senate filibuster.

One side effect of this is that members of Congress, particularly Senators, are forced to look beyond their home states for campaign funds (see exhibit on page 26). In a recent Washington Post article, Senator Max Baucus was quoted as saying, "We don't have a lot of wealthy folk living in our state like California or New York. I have to spend time traveling around the country, purely as a defensive measure because I know my opponent may potentially deluge the state with dollars."[19]

This issue, among others, was considered by a bipartisan task force, headed by Democrat Al Swift and Republican Guy Vander Jagt, which was given the task of coming up with recommendations for changes to the FECA amendments. Several states have established their own public financing and spending limit packages.

In mid-April three national citizen action groups launched a $1 million advertising campaign to support public financing of House and Senate races.[20]

A Level Playing Field

Incumbent congressmen have always had the advantage over challengers: their names are identified with Congress; legislative accomplishments beneficial to constituents are generally credited to the member; and

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[18] Senate Bill 137, introduced January 25, 1989 by Senators David Boren (D-OK), George Mitchell (D-ME), and Robert Byrd (D-WVA); and House Resolution 14, introduced January 3, 1989 by Reps. Tony Coelho (D-CA), Jim Leach (R-IA), and Mike Synar (D-OK).

[19] Quoted in *New York Times*, April 16, 1990, p. A14.

[20] *Washington Post*, April 18, 1990, p. A8.

Raising Money Far From Home

Incumbent senators running for re-election this year. Figures cover contributions by individuals of $200 or more in 1989.

SENATOR	PARTY, STATE	MONEY RAISED	FROM OUT OF STATE
Al Gore	Dem., TN	$ 363,291	96.5%
Larry Pressler	Rep., SD	386,071	94.7
Tom Harkin	Dem., IA	701,710	90.6
William S. Cohen	Rep., ME	306,175	89.3
Alan K. Simpson	Rep., WY	212,900	87.6
Joseph R. Biden, Jr.	Dem., DE	588,212	87.0
Ted Stevens	Rep., AL	172,472	82.2
Max Baucus	Dem., MT	384,656	81.2
Rudy Boschwitz	Rep., MN	1,809,589	74.5
Bill Bradley	Dem., NJ	1,772,635	73.2
Carl Levin	Dem., MI	1,378,507	69.9
John D. Rockefeller	Dem., WV	741,265	69.2
Mark O. Hatfield	Rep., OR	106,299	59.5
John Kerry	Dem., MA	1,199,373	53.6
Pete V. Domenici	Rep., NM	488,164	52.2
Paul Simon	Dem., IL	1,401,763	51.4
David L. Boren	Dem., OK	760,124	50.3
Howell Hefflin	Dem., AL	866,974	49.8
Jesse Helms	Rep., NC	286,277	48.7
Nancy L. Kassebaum	Rep., KS	13,100	47.7
Strom Thurmond	Rep., SC	305,510	39.9
Claiborne Pell	Dem., RI	36,450	37.7
J. Bennett Johnston	Dem., LA	457,646	36.7
Mitch McConnell	Rep., KY	1,466,711	34.8
Jim Exon	Dem., NE	185,022	34.7
David Pryor	Dem., AK	539,699	23.7
Thad Cochran	Rep., MS	315,898	20.6
Daniel R. Coats	Rep., IN	618,622	17.5
John W. Warner	Rep., VA	225,151	16.5
Phil Gramm	Rep., TX	4,050,048	14.9
Sam Nunn	Dem., GA	782,302	13.8

Totals exclude money from political action committees.

Source: Federal Election Commisssion

permanent staff offices in Washington and at home keep the member's name prominent. Recently, however, it has become even more difficult for a challenger to defeat a sitting congressman.

The increase in overall campaign spending does not seem to aid challengers in their bids for office. First, most PAC money goes to incumbents because their seats are considered safer, creating a chicken-and-egg situation: if you can't get money to run, you can't win, and if you haven't won, you can't get money to run. Spending by incumbents increased by 17 percent over 1986 to an average of $380,000; spending by challengers declined by 23 percent to an average of $115,000. By looking at individual Congressional races in 1988, the numbers show a financially lopsided contest between incumbents who are well equipped to win against challengers who are unable to raise enough money to seriously compete.

To illustrate what this can mean to a race, during the 1988 election cycle, Representative Al Swift raised 76 percent ($286,000) of his total receipts from PACs even though he ran unopposed. By contrast, PACs contributed only 12 percent of their total contributions to challengers.[21] In all, 408 of the 435 House races in 1988 featured incumbents seeking re-election; all but six of the incumbents won. No challenger for a House seat spending less than $300,000 won; and the spending gap between incumbents and challengers widened to $264,000 this year, as opposed to $43,000 in 1980, a 510 percent increase in eight years.[22]

The recent proliferation of "leadership PACs" also tends to strengthen the reach of an incumbent. These organizations amass funds in the name of a Member; those moneys are then distributed to candidates who use them in their own races for office, thereby ensuring at the very least a friendly reception when the donor needs assistance later.

Another, although less obvious, benefit of incumbency is the use of the frank mailing system, which allows members to mail unlimited newsletters and other communications, stamped with their names, to constituents without charge. A recent Congressional Research Service report shows that election year mailings from House members are usually double those in non-election years. Common Cause puts the cost of such mailings by the Senate during the election cycle 1987-88 at $53 million.[23] "Franked mass mailings are used for campaign purposes by Members of Congress and provide incumbents with an unfair and discriminatory advantage over their challengers. The use of the frank for mass mailings should be eliminated or sharply curtailed," Common Cause President Fred Wertheimer said recently. In February 1989 the Senate expanded from three to six the number of franked mass mailings each Senator can make to every address in his or her state per year, so taxpayers can expect the cost to escalate significantly.

Some observers suggest that one way to offset incumbent advantages is to subsidize the campaigns of challengers, (i.e., provide such things as travel allowances, reduced or free postage, and free broadcast time).

Strengthen the Party System

Strengthening the role of the political party in financing campaigns is one way to lessen the influence of

[21] *Washington Post*, July 23, 1989, p. A4.

[22] Larry Makinson, *The Price of Admission* (Washington, DC: Center for Responsive Politics, 1989), p. 11.

[23] *Franks a Lot* (Washington, DC: Common Cause, June 16, 1989), p. 2.

individual and special-interest contributions. There is no doubt that as special interest groups and individual donations have gained in economic impact on the political process, traditional grassroots political organizations (and, by extension, the national party system) have suffered. This has eroded the parties' ability to push the system toward consensus and to marshal citizens and legislators around a common standard that can be used to create a public agenda.

There is general agreement that any campaign finance reform should include an increase in allowable expenditures for political parties. For example, there is a two-cent allowance per potential voter at the state level for Senate races. At the federal level, some experts advocate converting soft money into "hard money" by requiring disclosure and setting limits on both contributions and expenditures. Other proposals would double the allowable party contribution by individuals and special interest groups. Other suggestions include tax credits at both the federal and state levels for donations to political parties and/or a "tax add-on" that permits a citizen to channel $50 to $100 of an income tax refund to the party of choice.

Control Independent Expenditures

The FEC acknowledges that independent expenditures are used as a vehicle to circumvent the contribution limits set by the Congress. For other groups, such as ideological or private political organizations, one measure under consideration is to bar such activities sponsored by corporate, trade association, or union PACs. There seems to be little that can be done about the issue, unless Congress can devise a way to address the process of regulating independent spending, since under constitutional guidelines it cannot address the substance of independent spending. There is a provision in a House bill to provide the equivalent of matching federal funds to an opponent of any candidate for whom substantial independent expenditures are made.[24]

Limit Bundling

Bundling, the collection of checks by an intermediate agent from a number of different sources, allows a PAC or other organization to raise money far in excess of what it could give on its own, thereby receiving recognition from the candidate for its efforts. House and Senate bills now under consideration propose that the "bundling loophole" in current law be closed by requiring that any such contributions be counted toward the intermediary's *and* the original donor's limits. A proposal being considered by congressional leaders would prohibit combining contributions by corporate or labor PACs.

[24] House Resolution 14, introduced January 3, 1989 by Reps. Coelho, Leach and Synar.

Probable Impact of Campaign Finance Reform on Business

The element of reform most likely to affect business directly is the proposal to eliminate or restrict PACs. Backers of the system (and there are many) contend that PACs involve millions of Americans in the issues of an election and in campaigns, and that without them, voter participation in the electoral process would decline even further than in recent years.

Others contend that the growth of PACs has been at the expense of grass-roots political party activity, resulting in the lessening of party ties in favor of special-interest coalitions.

It is clear, however, that the elimination of PACs will not affect campaign spending. Steven F. Stockmeyer, executive vice president of NABPAC, said: "Both business and labor feel political involvement is important. Both will be forced to seek other political activities. The unfortunate thing is that smaller PACs, those who represent small- to medium-sized businesses or groups, will dry up, making it harder for the little guy to have an effect on a campaign."

Stockmeyer added that elimination of the PAC system will mean business will take to increased issues advocacy and more grass-roots political activity. He sees increased pressure on senior executives for more individual contributions. "Many executives don't understand how often senior corporate officials were asked for sizable contributions before PACs were created fifteen years ago."

Even if the most drastic step under consideration (i.e., the elimination of PACs) is not taken, corporate, trade association, and labor PACs may be required to work under substantially more restrictive requirements and a number of current practices may be barred. A probable outcome of change is likely to be more sophisticated bundling techniques, proving that no matter what changes are made, ways will be found to make contributions and get credit for contributors' organizations and interests. Another alternative is the creation of unaffiliated groups banding together for independent expenditures on behalf of, or against, a candidate.

The trouble with most of these alternatives is that they are not likely to diminish the flow of contributions, and they will all feed into the stream of unmonitored campaign funds. If disclosure requirements on expenditures are tightened, some corporations may have to keep more detailed records of their in-house expenditures for PAC administration—the only facet of corporate political activity not currently regulated.

Stockmeyer concludes: "Business has been hoisted by its own petard. PACs are one of the most visible and effective elements of campaign financing; they are also one of the more diligent in terms of accounting for contributions. That very diligence seems to have made them the most vulnerable as well."

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R4105-79.3F 12/90

The Conference Board

Report Number 950

The Changing Human Resources Function

- *Business needs increasingly dominating HR agenda*
- *Traditional human resources concerns being overridden by intense competition*
- *Cost-cutting and restructuring occupying more of HR executives' time*

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Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

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Printed in the U.S.A.
ISBN No. 0-8237-0396-7

The Changing Human Resources Function

by Audrey Freedman

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Acknowledgments

Madelyn Jennings, Senior Vice President, Personnel of Gannett, Inc., suggested that The Conference Board reconsider the role of the top human resources executive in the 1990s. She was, at that time, Chairman of The Conference Board's Advisory Council on Human Resources Management—a group comprising just such individuals.

After the Council devoted several hours of discussion to the subject of this report, individual members volunteered to review it for content and tone. Some thoughts have been drawn from experiences with the network of human resources executives to whom the Board provides service on a continuing basis. The council that generated and contributed to the report is listed below:

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Mr. Arthur V. Puccini Vice President - Corporate Employee Relations Operation, General Electric Company

Mr. Douglas M. Reid Senior Vice President, Xerox Corporation

Mr. Gene R. Remoff Vice President, Human Resources ARA Services

Ms. Irene C. Roberts Senior Vice President - Human Resources, American Express Company

Mr. Anthony J. Rucci Corporate Vice President - Human Resources, Baxter Healthcare Corp.

Mr. Patrick J. Scollard Chief Administrative Officer, Chemical Bank

Mr. Arthur Denny Scott Vice President/Director of Personnel, Goldman, Sachs & Co.

Mr. Richard J. Sharp Executive Vice President - Corporate Human Resources, BellSouth

Ms. Joan Showalter Vice President, Personnel, CBS Inc.

Mr. Dale E. Smith Vice President, Human Resources Combustion Engineering, Inc.

Mr. H. Gordon Smyth Senior Vice President - Employee Relations, E.I. du Pont de Nemours & Company

Ms. Cam Starrett Vice President, Personnel & Administration, MacMillan, Inc.

Mr. John J. Tucker Senior Vice President, Human Resources, Kraft Inc.

Mr. Robert V. Welty Vice President - Human Resources Union Carbide Corporation

Mr. Christopher J. Wheeler Vice President, Human Resources, 3M

Mr. B. Joseph White Associate Dean and Professor of Business Administration, The University of Michigan

From the President

With increased competition and a complex and changing work force, the human resources function has come to play a crucial role in the strategic management of businesses.

This report provides a provocative and insightful perspective on the role of the human resources executive. It attempts to define the evolving role of the human resources executive and discusses the need for trained, competent professionals who will be, as business "partners," constantly confronted with the competing demands of functional specialization and business involvement.

One of the means of assuring that The Conference Board's research is relevant and useful to business is seeking the advice and participation of its councils. These councils provide opportunities for senior executives around the world to meet regularly and share information, ideas, and insights on crucial business issues. This report was undertaken at the suggestion of the oldest of those councils: The Advisory Council on Human Resources Management.

The Conference Board would like to thank the Advisory Council for making a contribution and, as practicing professionals, for sharing their expertise and experiences to enhance the quality and relevancy of the report.

PRESTON TOWNLEY
President and CEO

Executive Summary

The role of the top human resources executive in major corporations has changed during the past decade into a directly-involved business advisor and strategist, as well as implementer of business objectives.

Intense competition has overridden previous human resources concerns and forced priorities toward internal, business-driven issues.

Since cost-cutting and restructuring became the watchwords of the 1980s, personnel cutbacks and reorganizations have occupied increasing proportions of the HR executive's time.

Nevertheless, all of the prior themes—employee welfare, personnel administration, union relations, government regulation, and community concerns—are still present among the HR executive's responsibilities.

With the increasing dominance of business needs in the HR agenda, there is some question as to whether the top position is gradually becoming a general management job (albeit with a point of view originating in the work force of the firm). The "technical specialties" might then become relatively static administrative functions.

In such a changing environment, training for the top HR position becomes uncertain. There is a developing issue over whether there is a clearcut human resources professional career, and the specific content of such a career. The Conference Board's Advisory Council on Human Resources Management addressed all of these issues.

Corporate Human Resources Today

Human Resources (HR) management in the 1980s grew and broadened as it became dominated by internal business concerns. Competitive pressures—arising from imports and from deregulation—introduced new business emphases during the preceding decade. Old-line, well-administered corporations were forced to cut costs, improve productivity, become more flexible and responsive, and raise quality. None of these new demands can be met by following rulebooks and procedures. Competition required a new and intense focus on the economics of business operations.

Nevertheless, all of the requirements and responsibilities built into the job during previous eras were still very much a part of its work. These roles had become regularized, to be sure (see page 9), but remain a substantial, highly technical aspect of the HR function. In addition, HR cannot operate completely freely, as if past actions were not present, every day, in corporate life.

The Effects of Previous Corporate Decisions

In younger companies, the speed and ease of movement is great. There is a strong emphasis on recruitment of managers, technical people, and all workers. Growth and newness cover error; there is no time for scrutiny. Human resources results will not come in for decades.

The "anything goes" attitude is quintessentially American. We like to think of ourselves as beginning fresh each day, with enormous potential for quick change and reform. However, for HR managers in larger companies, this is far from true. Past corporate actions are heavily influential and constraining. Those who are aware of the constraints are better equipped to handle them smoothly, pick the important barriers, and shift them out of the way.

HR policies and procedures, the unwritten "standard operating practice" of the firm, the business ethic and culture of the firm, are all the product of actions and decisions that occurred 10, 20, even 30 years ago. Those who made and carried out decisions decades ago could not have foreseen their effects on the 1990 corporation. However, their results are often inappropriate in today's business situation, and need to be overcome. "Overcome" is more than simply "changed." It means redesigning and rebuilding in terms of the needs of the firm today. That is a major burden for HR to bear.

What are these speed regulators slowing down today's HR managers?

- The corporation's "convictions," beliefs, and myths.
- The pace of the business and the firm's time horizon.
- The company's self-image.
- The firm's definition of "the competition," and its definition of the market.
- The "usual and accepted" costs of the business: wage costs, capital availability, and investment requirements.
- The existing level of executive development, work force development and operating habits, managerial ability and "style," and union influence.
- The existing level of technology.
- The culture of receptivity (or resistance) among the hierarchy.

All of these affect HR management, along with general personnel "past practice"—all of the unwritten rules that have grown by accretion over the decades.

The HR job in a large corporation is to make the company more adaptive. It must be accomplished without exposing the company (or the individual manager) to serious risk. It also requires diplomatic attention to the advocates of if-it-isn't-broken-don't-fix-it inertia.

This role was described by Clifford Ehrlich, senior vice president of Marriott Corporation, as being "a catalyst for change." The most frustrating aspect of his job is "the barriers to changes that have already been agreed upon. If one comes from long traditions (which we do), some of those barriers are understandable, some are not quite so understandable. Some are driven by our own function—by people whose history is 'we do it this way, we have that policy, and we have got to do that for the next decade in the same way.' "

Competition demands rapid adaptation. There is a lot of forced change taking place and the HR professional is guiding that change. Business and economic pressures are the most powerful influences on HR today, and will remain so. That creates another problem:

Tension Between Functional Specialization and Business Involvement

With the expansion of business and economic concerns—or competitive pressure—the top HR executive is increasingly involved in operating matters. There is much less demarcation between HR and line management, at least in point of view, or in operating framework. In most situations, HR executives welcome this integration. Yet they feel a tension, particularly at senior levels, between keeping current with the standard specialty areas and their new role as business partners.

Human resources departments comprise several highly specialized subject areas. On pages 21-24 the historical development of these technical areas is explained as a response to unions, or to government, or to developments requiring internal corporate policies of considerable refinement. As a result, today there are compensation experts, executive compensation experts, pension managers, benefits planners, benefits administrators—all proficient in the detailed technicalities of one aspect of pay. In the broad territory of finding and promoting employees are specialists in recruitment, interviewing and hiring, training, succession planning, career counseling, executive development, equal opportunity programming, and organization development. The box above shows what proportion of businesses had these specialties.

These are not all of the technical areas, but they are enough to worry a senior HR executive who is concerned about losing credibility or credentials by spending more time on broad business concerns rather than on his or her earlier speciality. Another concern is whether or not to bring a broad business point of view to the technical specialists reporting to the top HR person. In this situation, the senior HR executive is both interpreter and middleman: part of general management, yet leading a group of functional specialists.

The tension between business involvement and maintaining technical expertise occupied much of a late 1988 discussion in The Conference Board's Advisory Council on Human Resources Management. These top-level human resources executives were nearly all concerned about maintaining technical familiarity. One said that there is a dilemma in time allocation: stay functionally aware and competent, or stay close to general business executive thinking?

Technical Experts in Business Firms

A Society for Human Resource Management-Bureau of National Affairs survey of 477 businesses indicated that the following proportions had one or more "specialists" in a particular subject area:

benefits	**38%**
employment/recruitment	**34**
compensation	**31**
training and development	**25**
EEO compliance/affirmative action	**16**
safety and OSHA compliance	**11**
labor relations	**11**

Source: *Bulletin to Management* (BNA Policy and Practice Series), Vol .41, No. 26, Part II, (June 28, 1990), p. 9.

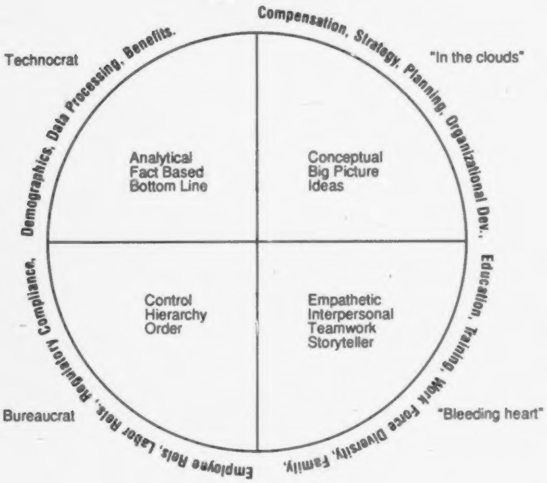
In moving closer to basic enterprise concerns, most of the Council members see the line of demarcation not in functional expertise terms, but in the staff or "assisting" role of HR. One said HR is a staff operation and always will be. Its main activity is to facilitate, support, and influence; and then to allow others to take credit for the results. It exists to further the business's objective, not to create an HR objective: That is the essence of the relationship or partnership with line management. New HR people must be sought on the basis of ability to influence, even at several layers above themselves. A deeper analysis of this influential or assisting role appears in the second section of this report.

One HR executive pointed out that being technically up-to-date in all specialties is no longer possible because the subjects have become too complex. There were several responses to that comment: "This is the reason for good staff work and support in each technical area," said one. "A confident HR executive will openly rely upon the expertise of specialized staff, or other professionals including advisors and even consultants," said another.

In large companies, one observed, the present and future situation is going to require that the HR staff have all of the expertise, and be able to operate relatively independently. The reason is that top HR executives are increasingly being asked to do "separate" problem-solving, run a business in transition, initiate a business start-up, and lead a task force. None of this is traditional work. It suggests that those executives are being drawn into general management, at least on a temporary basis.

Chart A represents different HR "competencies," developed by Cam Starrett, vice president of human resources for Macmillan Company. It shows that HR leadership, like chief executive leadership, requires strength in all quadrants. On the other hand, particular personal strengths and interests characterize technical and specialized HR professionals, as in the diagram.

Chart A: Human Resources Competencies



The analytical quadrant, for example, contains compensation—which is close to the conceptual group—and benefits. Data processing and "demographics management" (such as identification of high-potential employees) are in the analytical sphere, yet placed closer to the control quadrant. That control group also contains compliance and regulatory matters, as well as labor relations and employee relations. These last two are a little closer to the interpersonal, empathetic sector. Training, work force diversity, family issues, and employee assistance are clearly in the empathetic group.

The conceptual quadrant comprehends planning and strategy, and organizational development, and might be considered to be the home of the business and economic aspects of HR management. In fact, the entire business involvement issue for these executives may be seen as an outgrowth or enlargement of this one quarter labelled "big picture" or conceptual in nature.

Specialization and Organization of the HR Function

The top HR executive within a large corporation typically has specialized staffs to manage the technical subjects such as compensation, while concentrating on the larger business aspects of the function, in addition to planning. In Appendix A, eight organization charts from The Conference Board's Chart Collection identify these specialized technical areas, and show various configurations. Two of the charts also indicate relationships at the CEO level, and a number show types of decentralization, or interconnections with operating divisions.

The dominant message of these charts is that of variation. There seems to be no "typical" configuration of the HR responsibility. From this we might draw a first conclusion: The content of the HR function is determined by a *particular* business, a *particular* history—and, within a large corporate entity, by *growing differentiation* among businesses. In other words, it does not have "a life of its own." It is clearly an adjunct to the business, and takes its mission and shape from the needs of that business and its line executives.

Nevertheless, some specialties appear on nearly every chart (compensation and benefits, for example). Some aspect of employee development or training occurs in most charts. Labor relations occur in some, probably because union presence is the determinant. Other technical functions, such as planning, medical office or health and safety, information systems, and equal opportunity are found on many charts. The charts have not been standardized (other than removal of company identification), so that their variety of terminology and structural relationships is not compromised.

Because of the close connection between specialized functions and the nature and history of the business itself, the organization charts can be used for some informed guesswork about the companies involved. For example, *Chart 1* is probably a unionized manufacturing company—it has an "industrial relations" staff, even at regional levels, and a corporate "safety and environment" manager. The top HR executive in *Chart 2* carries the title "Personnel and Union Relations Director," in a company that seems to be either manufacturing-based or a public utility. *Charts 2* and *3* contain a section covering "security."

The presence of HR staffs dealing with "mergers and acquisitions" in *Chart 4* suggests a major role in corporate planning, and heavy consideration of HR issues in business initiatives.

Charts 5 and *6* depict a decentralized management strategy: The operating divisions have HR managers with a dotted-line relationship to corporate HR executives, but report directly to line managers at the division level.

Chart 7 shows great elaboration in the staffing of benefits, as well as an emphasis on compensation, yet it also shows an unusual title: "Manager of Productivity Improvement."

The two technical fundamentals of any HR department seem to be compensation and benefits: They are omnipresent. Technical specialization, especially in large corporations with numerous pay and benefits plans, is required. In many, both administration and planning are shown, and they may even be separated organizationally.

The relationships shown in HR organization charts represent several ways of organizing technical assistance to help operating executives, as well as an administrative structure. One of The Conference Board's Advisory Committee members commented that she is not at all threatened or disturbed when the CEO seeks detailed information about, for example, compliance with a new tax regulation. She is the top-level HR executive. She calls her manager of compensation, or benefits, into a conference with the CEO, "because they know the facts better than I."

Compensation and benefits are subjects that require the most extensive specialized knowledge, closely followed by employment/placement/planning, according to a survey of the Society for Human Resource Management.[1] For HR generalists, more knowledge is required if they are at higher corporate levels—or if they work in smaller organizations. Being high up *or* having to cover a lot of territory means having to know a great deal about all aspects of human resources.

Size of HR Staffs

The administrative personnel work of HR departments has been described and reported in a survey by the Society for Human Resource Management (SHRM) and The Bureau of National Affairs (BNA). There was some variation in the size of HR managerial and professional staffs by industry. Those with relatively heavy HR staffing seem to be industries that are either currently affected and protected by regulation, or recently emerged from regulation. Transportation, communication, utilities, and banking and finance had higher proportions of HR managers and professionals (see Table 1).

Table 1: Median Number of Personnel Managers and Professional/Technical staff per 100 employees on firm payroll

Category (and number of respondents):	
Manufacturing (166)	.6
Transportation, Communications, Utilities (37)	.8
Wholesale/Retail Trade (33)	.4
Banking and Finance (56)	.9
Health Care (51)	.4
Government and Education (50)	.5
By size:	
up to 250 employees (124)	1.1
250 - 499 employees (82)	.8
500 - 999 employees (79)	.5
1,000 - 2,499 employees (105)	.5
2,500 or more employees (84)	.3

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A systematic, but moderate, variation appears when size of business is taken into account. That is, the larger the business, the lower the ratio of personnel managers and professionals to total employment. There are modest economies of scale in the HR function.

Data from a comprehensive and detailed occupational survey of 514,400 business and non-business establishments show levels of HR managers and specialists by industry (see Table 2). These ratios are roughly half as high as those shown in the SHRM-BNA survey. An important reason is that the BLS survey was a far larger one, going to very small businesses that did not report any personnel staff (slightly more than half of all respondents did report personnel specialists or managers). In very small firms, HR management is a part of the responsibility of the operating business manager or proprietor. Ratios in Table 2 are reported in terms of total employment within each industry, not calculated in terms of personnel ratios within each business. A second point of difference is that it is likely that a survey covering all occupations within a firm will pick up fewer reported "personnel" specialists than one that is directed only to personnel respondents. While there is likely to be some implicit size effect, the BLS data also suggest that industry characteristics play an important part in determining the ratios of personnel staff to total employment.

Financial institutions (the second grouping in Table 2) have high ratios of human resources managers and professionals. In the financial grouping, those with *lower* HR ratios are, in fact, the businesses in which numerous small firms operate: real estate and insurance agencies. It is reasonable to conclude that there is something about financial institutions that requires a large personnel function. The possible explanations include a fiduciary responsibility that requires greater scrutiny and overseeing of personnel; or a need for more careful training and management of people in this personal service business.

Retail and wholesale trade (the fourth grouping in Table 2) has notably low levels of HR staffing. These businesses are generally very small. It seems likely that they are, in fact, so small that there is not even one full-time personnel manager. The business owner or line manager may actually be performing HR management during most of the day.

Manufacturing and mining industries (the fifth and part of the sixth grouping in Table 2) have relatively high ratios of HR managers to total employment. Possible explanations are greater levels of unionization and a long-term union presence, more hierarchical management structures that require staff back-up at each level, and generally older businesses. These characteristics might be applied equally to some of the transportation and utility industries in Table 2. They have been regulated industries, as well.

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[1] Walter W. Tornow, Jan S. Houston, and Walter C. Borman, "An Evaluation of the Body-of-Knowledge," *Personnel Administrator*, June, 1989, pp. 136-143.

Table 2: Average Number of Personnel, Training, and Labor Relations Staff per 100 employees, by industry

Industry	*Managers*	*Specialists*
Railroading	.18	.15
Local & suburban transit	.17	.10
Motor freight transportation	.12	.10
Water transportation	.21	.15
Transportation by air	.15	.23
Pipelines, except natural gas	.36	.42
Transportation services	.12	.06
Communications	.18	.38
Electric, gas, and sanitary	.27	.65
Depository institutions	.45	.44
Nondepository credit institutions	.36	.36
Security and commodity services	.20	.29
Insurance carriers	.30	.56
Insurance agents, brokers	.16	.09
Real estate	.10	.03
Holding and investment offices	.76	.88
Hotels, lodging places	.21	.12
Personal services	.06	.04
Business services	.35	.29
Automotive services	.06	.04
Miscellaneous repair services	.03	.03
Motion pictures	.17	.13
Amusement/recreation services	.10	.04
Health services	.11	.07
Legal services	.18	.19
Hospitals	.02	.04
Educational services	.07	.10
Social services	.25	.32
Museums, galleries, gardens	.26	.19
Membership orgs. (a)	1.51	6.14
Miscellaneous services	.18	.16
Wholesale trade—durable	.08	.09
Wholesale trade—nondurable	.08	.05
Building materials	.03	.02
General merchandise stores	.18	.31
Food stores	.06	.03
Automotive/gasoline stations	.03	n/a
Apparel and accessory stores	.06	n/a
Home furnishings, equipment	.06	.04
Eating and drinking places	.04	.02
Miscellaneous retail	.05	.03
Food and kindred products	.25	.15
Tobacco products	.25	.56
Textile mill products	.21	.11
Apparel and fabrics	.13	.05
Lumber/wood products (b)	.13	.06
Furniture and fixtures	.20	.11
Paper and allied products	.28	.19
Printing and publishing	.18	.13
Chemicals	.38	.38
Petroleum refining	.37	.54
Rubber and plastics	.24	.15
Leather products	.15	.07
Stone, clay, glass, concrete	.23	.13
Metal industries	.27	.23
Fabricated metal (c)	.23	.13
Machinery/computer eqpmt.	.27	.27
Electronic/electrical eqpmt.	.31	.35
Transportation equipment	.19	.46
Measuring/analyzing instruments	.31	.30
Miscellaneous mfg. industries	.21	.10
Metal mining	.26	.40
Coal mining	.35	.35
Oil and gas extraction	.23	.42
Mining, nonmetallic minerals	.15	.09
Building construction	.09	.02
Heavy construction	.10	.06
Government:		
Federal	.11	.89
State	.14	.63
Local	.13	.19

(a) except religious organizations
(b) except furniture
(c) except machinery and computer equipment

Source: Occupational Employment Survey (OES), various reference years (1985-87), U.S. Bureau of Labor Statistics

In terms of the whole economy, the large BLS survey can give a broad picture of the HR function—at least when it is clearly identified with a personnel "specialization." Much of what we have learned, of course, implies a blurring of the boundaries between general managers and personnel specialists, as business pressures require a less parochial and "professional" isolation in the function. Table 3 shows recent and expected future non-clerical employment in personnel training and labor relations, as carefully defined:[2]

The growth rates for both types of non-clerical personnel staff are higher than expected growth rates for total employment.

Overlap of HR and Line Management

If HR executives feel a tension between technical expertise and their growing role in enterprise operation, that is only part of the issue. As HR becomes blended with line management concerns, it begins to lose a separate staff identity and purpose. Could the separate function disappear gradually? In some companies, operating and line managers might begin to assume some aspects of HR functions as part of a complete management role. It may be that the "old" functional specialty (personnel management) is fading as management of HR becomes an aspect of general management. If such a blend develops, then technical work such as benefits administration, and compensation planning, will be done by specialists reporting to line managers.

An analysis of the activities of the HR department suggests that: "The constituencies in the operating levels have a strong preference for their HR departments to perform administrative and employee support activities, while the constituencies at the corporate level tend to emphasize planning and development activities that have organizationwide implications."[3] This may also intensify the conflict between maintaining technical expertise and having a role in top management.

Table 3: Non-Clerical Employment Projections to 2000

	1986	*Projected 2000*
Personnel, training, and labor relations:		
managers	150,030	191,920
specialists	220,700	267,200

Exhibit A is a complete job description for the top HR executive of a large corporation. It brings into focus the disparate claims of functional expertise and of the strategizing, top management role. For example, the first four paragraphs explicitly refer to specialized knowledge, and point out that there is expert subordinate staff to supply that knowledge. Nevertheless, the top position seems to require expertise and experience in nearly all these functional details. The second paragraph makes it clear that organization and management of staff is part of the job. It is evident that this position has been in existence for a long time, that a complete infrastructure already exists, and that, possibly, there is a deeply embedded culture within which the executive must function. (Along the lines of "The Effects of Previous Corporate Decisions," pp. 9-10.)

The fifth paragraph describes a capability to take initiative—but ever so softly. It implies that the HR executive can diplomatically create a demand for new policies and programs. Finally, it reminds the applicants that their role is also to represent the interests of employees. Appended to this job description is a list of qualifying experiences and training that stresses functional expertise in many kinds of HR fields, from labor relations law to social psychology.

Exhibit B describes an entirely different position. It is a HR job evolving in a new, rapidly-growing company that has not yet developed the function. If this were a plant, it would be called a "green-field" operation. As a result, there is more emphasis on recruitment and development, and on strategy for the firm. There is little reference to functional expertise, and it has a note of informality that Exhibit A lacks. This financial company clearly recognizes that its people are critical to service delivery, and intends that its handling of HR produces good service outcome. But it has had very little personnel management in its brief history. It is looking for a generalist; an advisor and consultant to top management on HR strategy; and it is not specifying technical expertise.

These exhibits represent a few of the factors that affect HR executives' roles: the size of the company; its "age"; the kind of industry and types of employees; the aftereffects of unions, of government regulation, or of employee litigation.

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[2] *Personnel, Training, and Labor Relations Managers*: Plan, organize, direct, control or coordinate the personnel, training or labor relations activities of an organization. Work involves establishing employee-relations policies; directing the selection, training, and evaluation of employees; administering benefits, safety, and recreation programs; developing wage and salary schedules; coordinating bargaining activities; and advising on labor contract administration.

Personnel, Training, and Labor Relations Specialists: Conduct programs of recruitment, selection, placement, training, promotion, welfare, safety, compensation, or separation of employees. May specialize in specific areas such as labor-management relations, counseling, job analysis, position classification, training, or compensation. *Excludes* occupations in personnel research and in the administration of testing and counseling programs for which a background in psychology is required.

[3] Anne S. Tsui, "Defining the Activities and Effectiveness of the Human Resources Department: A Multiple Constituency Approach," *Human Resource Management*, Spring, 1987, Volume 26, Number 1, p. 64.

Exhibit A: Senior Vice President, Human Resources

Position Profile

This position represents the personnel point of view in the strategic and operational direction of the business. The incumbent is expected to provide, with the support and concurrence of the President, a philosophy and guiding principles for managing the human resources of the company. Authority is limited to the protection of the company's interests in relation to laws and regulations pertaining to personnel. The position directly impacts all functions and areas of the company in matters of morale, management practices, employee well-being, compensation, benefits, structure, and development. The incumbent is expected to positively affect these matters through his/her personal influence and professional credibility rather than vested authority.

This position requires an incumbent with broad managerial and professional knowledge and experience. From the managerial standpoint, the Human Resources group comprises ten interrelated yet disparate functional areas: personnel relations, compensation, benefits, training, organization development, recruiting, personnel administration, field personnel services, communications and home office personnel services. The current staff consists of 75 people, including 42 professionals. The incumbent also has functional responsiblity for personnel services to four distribution centers. Budget administration responsibilitics approximate 29.7 million.

On the professional side, with the exception of the directors of compensation and staffing and of human resource development and the managers of benefits and of media projects, virtually all staff members have been developed inside the company. Technical and professional direction and training rest with the incumbent. The incumbent is expected to provide the company with systems, programs, and processes which effectively support business goals and organization values. The company's principal executives rely on the incumbent's personal experience, skills and resources to bring the company to current "State-of-the-Art" status.

Critical competency requirements include preventive labor relations, personnel/labor law, compensation practices, benefit practices, training and organization development practices, and employee involvement processes. The company's widespread training needs are especially important at this time. The incumbent must have highly developed consulting and communication skills.

Although the incumbent is not expected to create or invent systems and programs, he/she is expected to introduce successful practices new to and adapt them to the company's particular needs. The incumbent must be able to judge when to act and when not to act with patience and persistence. He/she must be able and willing to modify actions to gain agreement and consensus. The incumbent must be able to place the priorities of the company over those of the personnel function. At the same time, the incumbent is expected to be a strong advocate for employee interests and well-being.

Candidate Qualifications

Broad experience is required in the following areas:

- personnel/labor relations in both organized and unorganized situations, including union-free policies and practices, organizing campaigns, unfair labor practice charges, arbitrations, labor contract negotiation and administration
- personnel policy formulation, communication and administration
- corporate culture change, including the facilitation of improved organization effectiveness
- human resource development with special emphasis on all facets of training; but also including organization planning, succession and manpower planning, performance standard/expectations, performance review, personal/management development, assessment of management potential, organization development, career pathing and recruitment/selection process
- compensation programs, including job evaluations, wage and salary plan design and administration, short- and long-term incentive plan design and administration, bonus and gain-sharing plans
- benefit programs, including the design and administration of health care, dental, life and disability insurance and of defined benefit/contribution plans, vacation, sick pay, holiday and other policies
- corporate communications, using print, video and other media, including booklets, newspapers and other publication, institutional and informational videos and meetings of management personnel
- participatory and responsive management, including use of employee and other involvement processes (PC's), project management/task force/focus group techniques, attitude surveys, and bottom-up (suggestion, coffee hours, "Express Yourself," hotline, etc.) communications
- human resource information systems, including the development and utilization of cost/time effective reports and analyses
- departmental direction, management and administration, including staff selection, training/development and deployment; short- and long-term departmental planning, project management, program development and execution, delivery of human resource services, budget development and administration.

(Source: material used by the search firm Kenny, Kindler, Hunt and Howe, New York City)

Exhibit B: Position Specification: Vice President - Human Resources

The company is a leading firm in the field of options and futures trading and risk management. It has grown to an organization of over 600 people and is active on 12 domestic exchanges as well as international markets. Its approach stresses extensive interaction among the trading, quantitative research, fundamental research, and systems groups and places particular emphasis on state-of-the-art technology in carrying out its activities. As the firm continues to grow and increase in complexity, including expansion into customer-driven service categories, it is committed to maintaining the highest caliber of people and providing them with career development and training, and exemplary working environment and reward systems. To accomplish this, the company seeks an exceptional professional to provide strategic leadership and direction in addressing a wide range of human resource issues.

Principal Responsibilities—Working within a relatively unstructured partnership environment, the Vice President-Human Resources will be responsible for dealing with the full scope of human resource matters on a day-to-day basis. This will involve development of overall strategies, near- and long-term planning, training, compensation and recruitment. In addition, he/she will establish ongoing programs focused on optimizing internal communication with employees. This individual will collaborate closely with the General Partner of the firm whose overall responsibilities include human resources. The successful candidate will undertake the delicate task of introducing the appropriate level of human resource disciplines to an entrepreneurial culture while maintaining and enhancing the creative processes and team-oriented approach that characterize the organization. This person will interface with all levels of the firm as he/she assesses strategic priorities and implements the human resource charter.

Requirement—This position calls for an individual having a particularly strong generalist background in human resources with specific experience in training and development, human resource planning, and compensation and benefits. Ideally, this person will have gained experience in an organization noted for the quality and innovativeness of its human resource operations, policies and procedures. The successful candidate should relate well to technology and to individuals who are highly quantitative and entrepreneurial. The Vice President-Human Resources should have demonstrated ability to be an agent of change and have succeeded in implementing the innovation and installation of responsive and forward-looking human resource policies. It would be helpful if this person had made the transition from a structured environment with well-defined approaches to human resource issues into an entrepreneurial setting and had dealt with a wide range of personalities and perspectives. It would also be helpful that the successful candidate have direct experience with human resource matters offshore. A balance between responsiveness to the needs of the organization and forcefulness in presenting his/her point of view is important. The successful candidate should bring a consultative approach to the human resource function leading to the creation of flexible programs in a diverse and changing partnership environment.

Recommended Charter for Improving the Human Resource Function—This successful private partnership of traders and entrepreneurs, through rapid growth and diversification into more customer-driven services, has now much more complicated requirements for human resources management. The partners recognize a need for a full-time human resource professional working in close concert with the partner in charge of human resources to implement the following priorities:

- design and implement a human resource planning process and systems
- expand and professionalize the training and development program worldwide
- manage and evaluate the compensation practices and performance measurement criteria
- preserve the company culture while nurturing other new cultures brought about by the additions of technology and customer-driven services including the assimilation of outsiders
- establish a formal employee communications program

The changes must be accomplished without sacrificing current organization strengths such as: entrepreneurial spirit, collaborative environment, pervasive partnership attitude, lack of structure, lean/no bureaucracy, common sense approach to users, highly humanistic/high importance in people treatment.

A proven professional is needed to relieve the partner in charge of the function from its day-to-day management, freeing up this partner for longer-range planning and policy issues.

Assumptions:

- A planning/development/compensation management is viewed as an imperative by the members of the Management Committee
- The partner responsible for human resources will sponsor and support integration of the new Vice President of Human Resources into the organization
- Most day-to-day decisions within the firm's strategic framework of a human resource nature will be delegated to the new Vice President of Human Resources; in other words, there will be a clear delineation as well as some intended overlap of decision-making between the partner in charge and the Vice President of Human Resources

Consistent with other private partnerships, there is a relatively moderate salary or guaranteed compensation with a heavy incentive component emphasizing performance and overall profitability at the principal level.

(Source: material used by the search firm Kenny, Kindler, Hunt and Howe, New York City.)

The Evolving Role of the Top HR Executive

What is the heart of the top human resources job? When Rex Adams, vice president for administration at Mobil Oil Corporation, was asked this question, his answer was, "It depends." The content of the job depends on the particular history of the firm, its industry, market position, and the objectives and style of its chief executive.

The current needs of the specific business have become the major influence on the activities of the HR executive. Yet the external facts of available labor supplies, compensation levels, and social and political climate also carry some weight. As one member of The Conference Board's Council explained: "The old HR executive was a product of his environment: an environment of plentiful, if not surplus, labor resources, and relatively scarce capital and other resources. So careful management of employees was overlooked. We managed organizations in such a way as to discourage ingenuity and initiative! Now, the labor resource is scarce. So, since we are all products of this new environment, the HR manager has become crucial to business advantage in the company."

Some Attempts to Define the Role

HR executives are usually part of the top business management team. They focus on furthering the firm's objectives. Their relationship to the CEO or COO is essentially supportive. Says Adams: "The top HR executive works with the top management group to provide all organizational requirements for moving (this) particular business in (that) particular direction, while thinking in ten-year lead times. This is the essence of 'being a member of the business management team.' "

Relationships with other line management involve providing direction and specific help. In other words, the firm's HR strategy, worked out by the top-level "team," is affected by the actions of line managers and supervisors with regard to their employees. A cost reduction strategy, for example, would be carried out in compensation redesigns and in many variations of productivity-enhancing actions, as well as in "downsizing" and restructuring the firm's activities.

Gaining (and keeping) credibility and trust is an important aspect of the HR role. Whose trust? Answer: the top executive team; line managers and supervisors; and all employees. In some cases, maintaining the trust of these three groups is difficult—perhaps impossible where their objectives are incompatible. For example, HR executives feel burdened by representing employee interests that occasionally disagree with the interests of the CEO. Policies, too, can be geared to employee concerns and made less expressive of managerial prerogative and control. A HR executive who has the respect and confidence of the CEO can become influential on behalf of other managers or of lower-level workers. Yet, it is clear that this is a very delicate piece of work.

Advisory Role

In dealing with line management, a HR executive may take on the role of "internal consultant."[4] The personnel specialist may gather information and provide analysis that line management needs for decision-making and may also offer advice on a particular course of action. Being an insider can be advantageous because the organization and its culture are already known and a trusting relationship already exists. On the other hand, these advantages may threaten independence and creativity and ultimately undermine any suggested changes.

Madelyn Jennings, senior vice president, personnel of Gannett Company, Inc., created a diagram that encompasses the roles of the HR executive (see Chart B, p. 18). She makes the role of catalyst paramount, but draws upon four other aspects of the job that appear in the paragraphs above. The "knowledge professional" has a technician's expertise but uses it specifically to support, not administer. The "negotiator/influencer" is a communicator and may also be a representative of

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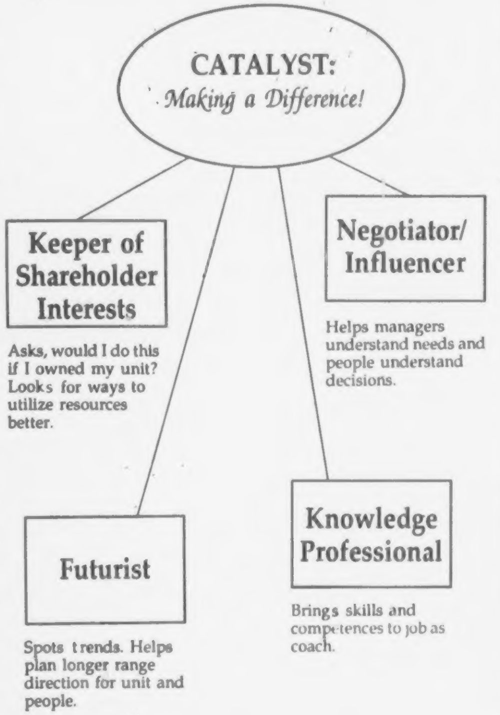
[4] Thomas J. Hackett, "The Real Role of Personnel Managers," *Personnel Journal*, March, 1988, pp. 70-75.

Chart B: Role of Human Resources


CATALYST:
Making a Difference!
Keeper of Shareholder Interests
Asks, would I do this if I owned my unit? Looks for ways to utilize resources better.
Negotiator/ Influencer
Helps managers understand needs and people understand decisions.
Futurist
Spots trends. Helps plan longer range direction for unit and people.
Knowledge Professional
Brings skills and competences to job as coach.

Source: Gannett Company, Inc.

employee interests. The "keeper of shareholder interests" is clearly concerned with the economics of the business itself—the interest of the top management team. Finally, the "futurist" is a business strategist who is sensitive to the external facts and trends that will ultimately affect the business.

A group of professors at the University of Michigan attempted to measure the importance of these roles by studying how other corporate colleagues evaluate the performance of human resources executives. Although their measures seem abstract compared with the kind of critical incident or anecdotal accounts that provide colorful insight, the size of the study commands respect. Dean Joseph White describes this in the box on page 19.

Advisor to the CEO

The most important aspect of the top HR executive's role seems to be that of counselor to the CEO, particularly with regard to strategy. Even though many HR executives speak of "programs" (a term that seems incongruent with strategy counseling), the programs themselves are responses to broad business needs. For example, if the firm develops a new business strategy to create and market a reputation for quality products, that strategic plan may be carried out through an intensive quality "program." This quality program may itself embody a new training "program," making the HR executive a facilitator for the broad realization of business goals.

A need for more flexible costs was perhaps the strongest strategic imperative of the '80s. The responsibility for change fell on the shoulders of work force managers. Costs of capital and of raw materials are both relatively fixed to the business purchaser or "customer."[5] In many ways, the cost of new technology is also fixed. That leaves the *cost of a business's work force*—total payroll—as the major opportunity for flexing business costs. That fact may explain the growing strategic importance of work force management. Not only is payroll a substantial part of total business operating cost; it is the *only* cost that is malleable.

Attaining flexibility in total payroll costs can be accomplished in many ways. Most directly, the compensation system can be made more responsive to business conditions and to individual performance by linking it closely with the firm's experience. With careful preparation, pay freezes and pay cuts can be introduced.

More broadly, payroll costs can be reduced by redeploying workers and managers, shifting their functions, and changing the structure of a firm's operations. This makes the entire work force, including its managers and executives, more fluid and responsive to market changes. Change and adaptive restructuring become a way of life for the company—a way to survive, in many cases.

Finally, the aggregate payroll can be sharply cut and reshaped by using either "outside" workers or by contracting out parts of an operation. For example, a company may decide to purchase maintenance services, engineering design, or public relations —eliminating internal corporate staffs. Contracting out also allows the company to use a specialized service company. If the service is inferior or too expensive, that contract can be shifted elsewhere, or renegotiated. Similarly, a company can deal with individuals or groups of workers on a contingent basis, hiring them for a specified task for a limited period. Contingent, temporary workers may form start-up staffs, or may be needed only for installing a new computer system; consultants can be hired for specific projects. In a sense, all of these techniques for flexing total payroll are simply "make or buy" decisions. This kind of outsourcing has been the chief way in which costs are being restructured—fluidized—

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[5] For example, at any particular time, the "costs" or interest charges of a bond issue or a bank loan are given for the borrowing firm, as are the returns from a new issuance of stock. The costs of raw material, or of production technology, are set in a market in which each purchasing firm must deal.

Human Resources Directions in the 1990s: A Report on Two Surveys

by B. Joseph White

Associate Dean, School of Business Administration, University of Michigan

A 1989 study by Dave Ulrich and others at the University of Michigan proposes that three sets of competencies of the HR executive may be identified as follows:

- Knowledge of the Business: The extent to which an HR professional understands the financial, strategic, and technological capabilities of an organization.
- Delivery of Human Resources: The extent to which an HR professional is an expert in the function and delivers high quality, state-of-the-art, innovative HR practices. These practices fall into six categories: staffing, development, appraisal, rewards, organization design, and communication.
- Management of Change Processes: The extent to which an HR professional is able to increase an organization's capability for change. This involves demonstrating the attributes of an outstanding change agent: able to diagnose problems, build relationships with clients, articulate a vision, set a leadership agenda, solve problems, and implement goals.

These competencies "enable the HR professional to enhance organizational capability to meet customer requirements, to be an active member of the management team, and to demonstrate staff leadership by establishing a vision of how HR practices empower organizations to meet customer needs by generating commitment to the vision, and by institutionalizing policies and practices which execute the vision."[1]

This survey tested the hypothesis that HR professionals who demonstrate competence in each of these three domains (knowledge of business, delivery of HR, and management of change processes) will be perceived by their work associates as more effective.[2] In brief, this survey reports how 8,900 HR associates perceive the competencies of 1,400 HR professionals in 91 major North American firms.

Measures:

- For knowledge of business, 16 business activities or functions central to business operations;
- For delivery of HR practices, 21 total HR practices across the six HR categories presented earlier;
- For management of change processes, 30 behaviors that reflect ability to manage change processes;
- For overall performance of the HR professional, a scale that asked the Associate to respond to the following: "Overall, compared with other HR professionals you have known, how does the participant compare?"

Results:

Performance in virtually all of the items used to measure the three areas of competencies related strongly to Associates' overall perception of the competency of the Human Resource professional. Most interesting are the results of the statistical analysis intended to determine the relative contribution of each of the three competency domains to the Associates' overall perceptions of the effectiveness of the HR professional.

These relative contributions (to a high competency rating) are: knowledge of business (16.5 percent), delivery of HR practices (23.6 percent), and management of change processes (42.7 percent).

The top management of change competencies are:

1) Is visionary
2) Establishes trust and credibility in relating to others
3) Takes a proactive role in bringing about change
4) Expresses effective verbal communication
5) Builds supportive relationships with others
6) Encourages others to be creative
7) Identifies problems central to business success
8) Puts specific problems in context of the larger system
9) Clarifies roles and responsibilities
10) Emphasizes cooperation within the management team

[1] Dave Ulrich, Wayne Brockbank, and Arthur Yeung, "Human Resource Competencies in the 1990s: An Empirical Assessment." Working Paper, The University of Michigan, 1989.

[2] Ninety-one firms, most in the Fortune 200, participated. Participation meant that the senior HR officer identified HR professionals in business units through the corporation as "Participants" and personally invited these Participants to join in the research. In total, 2,100 participants were identified. Each was sent a packet with 10 surveys: one that he/she completed, 9 that they distributed to their work "Associates" (subordinates, peers, clients, or supervisors familiar with their competencies).

now. Moreover, the largest cost-saving advantage in contingent employment systems is reduction in paid non-productive time: the company is paying only for the worktime needed.[6]

Not all of the decisions on this technique are being made by HR executives. Other managers may be the purchasing agent. Yet, it is unlikely that a concerted effort to reshape costs by outsourcing would be made without HR's advice and assistance. One senior HR executive of a large service firm has referred to his company (and his function) as "renting behavior" from contractors, outside providers, and even its own employees.

If all employment relationships are becoming more fluid, then "contract" is the best way to describe them. Behavior-rental contracts can become a cost effective mode for operating a business. In a more competitive, downsizing business world, managers may begin to see all employees (including themselves) in terms of arm's-length contractual exchanges. An additional benefit of such agreements is that performance or expected output standards must be specified. They would therefore be more objective and businesslike than expectations in a traditional group enterprise.

The drawback is that loyalty and shared values will not develop on contract. That overused word "vision" (in the sense of coherent purpose) cannot be applied to a working enterprise that is merely a web of contractual arrangements. Thus the top HR executive must also undertake some melioration of the effects of hard-nosed cost-cutting, insofar as they destroy the sense of mutual endeavor among employees.

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[6] Audrey Freedman, Testimony, "Rising Use of Part-Time and Temporary Workers: Who Benefits and Who Loses?"; Hearing, Committee on Government Operations, House of Representatives, May 19, 1988, pp. 35-40.

From Origins to 1990

The most pronounced characteristic of the human resources function is that it retains all of the issues that contributed to its development over seven decades. Having grown by accretion, the function retains themes and specialized concerns that arose in previous eras, even as it becomes blended with general management.

Perspectives on the HR Function

Where did the whole task of Personnel begin? How did corporations come to create a separate "function" to handle their employees? After all, workers are integral to the entire production process, as is capital equipment. It is imaginable that finance or sales might become an operation logically and organizationally separated from production. But managing workers? Employees were and are, in fact, managed by their line supervisors in hierarchical reporting structures. Yet about seven decades ago a separate, staff personnel function began to develop in large corporations. Then it spread to all but the smallest business firms within four decades.

Terminology for the function has shifted over the years, from "personnel," to "industrial relations" and "employee relations," and finally to "human resources." While all of these terms are still in use, the slowly shifting terminology matches a shifting management perception of work forces and what they do. Because of this, a modern-day understanding of the HR function requires some attention to its origins.

Social Work

At the turn of the last century, some large corporations in industries such as textiles, steel and railroading began to establish employee welfare departments, commonly under the stewardship of "secretaries." In textile mills especially, employers felt some moral responsibility for the very young girls who constituted their labor force. Entrepreneurs may also have been inspired by the utopian ideals of Robert Owen's New Lanark mills in nineteenth-century England; the social secretaries offered their assistance to masses of factory workers.

It was fundamentally social work, and was intended by enlightened employers to provide mutual aid, group activities (often of an educational nature), savings clubs, and some melioration of working conditions and the health hazards of factory life. The secretaries organized reading circles and recreation, "wash-up" and locker facilities, rest periods and emergency care, and charity drives. Decades later, some analysts described these welfare efforts as a constructive reaction to the appeal of unions. However, in contemporary thinking, the secretaries were distributing charity from a generous and modern employer to those in his care.[7] Their modern-day equivalent might be the organized Employee Assistance Program, or alcohol and drug abuse counselling, preventive health programs, and other helpful personnel activities.

Immigration

During the first World War and in the decade immediately following, profound changes occurred in the U.S. work force. Of greatest impact was immigration. Shortly after the turn of the century the flow of immigrants greatly increased, and remained high until war intervened (see Chart C, p. 22). The ease of finding work in the U.S. was perfect advertising for opportunity; the result was a steady supply of new "greenhorn" labor to factories and construction gangs.

The benefits to labor-hungry industry were obvious. Low-cost workers built the steel, machinery, clothing, leather and many other consumer goods industries; mined coal and copper; built roads, bridges, railroads, and tunnels. Native citizens were present too, but were also engaged in agriculture and rural development far

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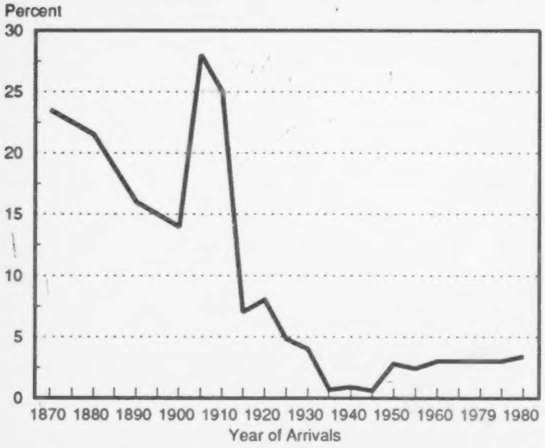
[7] Cyril Curtis Ling, *The Management of Personnel Relations*, Homewood, Illinois, Richard D. Irwin, Inc., 1965, pp. 75-82.

Chart C: Immigrant Arrivals of Working Age as a Percentage of Civilian Labor Force, 1870-1980



Note: For 1920-80, Immigrants 16 years old and over; for 1900-15, immigrants 14 years old and over; for 1870-90, immigrants 15 years old and over.

Note: Julian L. Simon, The Economic Consequences of Immigration, Cambridge, Mass., Basil Blackwell, Inc., 1989.

from the packing plants, breweries, foundries, and caissons of the big cities.

Immigrant flow was the highest that it has ever been, relative to the native population, during the decade before World War I. It was never more than about 3 percent of the base population in any year, but the size and concentration of the flow began to worry native Americans. A reaction of concern, particularly about "foreign influences," began to build. At the same time, urban school systems were burdened with children who spoke many European languages other than English, and who would only be in school a short time before entering a laboring life.

For employers, the benefit of a huge supply of low-cost, willing labor was accompanied by its polyglot characteristic. Though it may have been difficult to supervise workers who were called "grunt" labor because they could not communicate, the production and construction methods of the time required energy and brawn, not intellectual skills. Nevertheless, it is possible to imagine the setting of that period and discern one cause of the rise of a personnel office: factories manned by shifts of hundreds, perhaps thousands, of laborers who spoke their own language and seemed different in every way from their bosses. Worker "masses" replaced the manageable craft workshop with what amounted to a class system in the plants.

A second related development was unionism. These masses of workers were certainly suspected of being potentially revolutionary. They were a threat to the old order. Pressure for shorter hours grew, higher wages were demanded. Safety and occupational health issues were raised publicly. In some cases there was even a challenge to the arbitrary rule of plant bosses. One reaction was violence: the suppression of strikes and organizing with owner armies or state militia. Another class reaction was to identify worker movements with anarchists; Russian Bolsheviks; "agitators." A more constructive response to worker unrest was to establish, within mass production industries, the beginnings of an employee relations function.

Thus, the first seeds of formal personnel management were planted by massed labor, by concentrated immigration, and by union organizing. At about this time, 1916 to be exact, The National Industrial Conference Board was established to address these concerns. Its first managing director, Magnus Alexander, was an industrial relations analyst who published several reports on turnover and its costs—an important issue during the labor shortages of World War I.[8]

Unions

The unions that grew most rapidly were those that, sooner or later, matched the mass production model. Their appeal was made to the huge bottom layer of workers, not to individual craftsmen. The unions sought pay levelling as well as equal treatment for all in a plant or industry. Some even called this objective "industrial democracy" or the rule of law, as opposed to individual, arbitrary treatment of workers.

That very same policy of uniform treatment can be established without a union, responded the employers, with a personnel policy administered by a personnel department. Hiring could be managed more fairly than the "shape-ups" of earlier decades. Firing could be put under administrative regulation. Wages could be scientifically established. Even supervision could be managed. Following this line of reasoning, employers set about to make unionism unnecessary by adopting its objectives in the newly-formed staff function. Only the adversarial theme was omitted.

Such a review of origins makes it clear that the personnel function was created as a response to an external impetus. Union pressure, external to the management of the firm, required an internal adjustment. So personnel reflected that pressure in every aspect of its responsibilities. To put it bluntly, the personnel department owed its existence and importance to the unions.

The early functional specialties in personnel fit this general picture. Of major importance was wage-setting and wage adjustments, which frequently included piece rate systems. By the late 1930s, union avoidance occupied personnel staffs. Firms that were already unionized devoted the majority of their personnel attention to negotiation and administration of union contracts, including grievance and arbitration matters. This represented the skeleton of the personnel function on the eve of World War II.

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[8] Ling, pp. 370-71, 514-15.

Expansion of Personnel Administration During World War II

Wartime conditions had the obvious effect of requiring wage (and price) controls. Somewhat more subtle was the need to enlist the entire work force at home in the war effort to raise production, and the need for high domestic unity and morale. Unions were a strong existing organization for effecting all these national purposes. Their political influence grew. They became central to industrial mobilization, the wartime allocation of scarce labor, regulated wages and working conditions. If the U.S. ever has an "industrial policy," its model might be found in the operations of the War Labor Board and similar institutions.

Employer personnel offices took on the same configuration and purposes. After the war, an entire union-management system had been erected and was in place to dominate the 1950s and 1960s. One of the minor details of wage controls, the development of "fringe benefits," became an area of expertise. Another, industry-wide pattern bargaining, remained an objective even after wartime wage controls had been repealed. Labor (union) relations were still the most powerful influence on the personnel function. Academic institutes focused on labor-management issues. "Personnel" became "industrial relations."

Specialization

In large corporations, the personnel function had developed as a centralized staff response to specific external pressures. Its departmental configuration matched those pressures, and was highly specialized. By the 1950s, the major technical specialities were:

- labor relations (including union avoidance)
- wage determination and systems
- benefits design and administration

These three subject areas developed sub-specialties, covering the technical details of particular corporate systems. For example, benefit administration might have staff devoted to trust-funded, supplemental unemployment benefits, or to pension management. Or, a heavily unionized firm might have staff specializing in grievance handling and arbitration.

Emergence of Employee Relations

In many cases, this dominance of labor relations issues caused a breakout of a separate personnel function for non-unionized employees. While the industrial relations departments operated by the book of union contracts and government labor relations regulation, a non-union employee relations function focused on compensation systems. Gradually, it also began to move into recruitment and employee development and training. A social service interest in workers' home lives added low-key employee assistance and counseling in larger firms.

By the 1960s, executive compensation and managerial reward systems began to develop specialized approaches. In most cases they were viewed as part of the personnel function. Thus, there emerged the following specialized staffs in the non-union wing of "personnel" (as separate from the union "industrial relations" function): compensation, recruitment, training and development, succession planning, and managerial reward systems.

Government

Government regulation and external pressure also played a part in the development of personnel. At its union-generated conception, national and state legislation protected union organizing and bargaining, and shaped employer activities around the administrative regulations. This gave the personnel field a legal flavor from the late 1930s onward. More and more, labor lawyers framed the HR strategies of private business.

Compliance with minimum wage regulations, as well as working-hours restrictions and occupational licensing, was more of a purely administrative matter lodged in the personnel function at the plant or establishment level. These activities were assisted by handbooks and looseleaf services designed to guide technical and clerical staff in detailed compliance with the increasingly elaborate regulations and court decisions.

Then, in the mid-1960s, government began to regulate employment and promotion policies to produce equal opportunity for blacks. An expansion of this interest eventually included women, the elderly, and other groups. This brought government into the internal personnel operations of all but the smallest companies. It was a response to public concern about the employment practices of private business.

Business, again responding to external pressure, added another specialty area to personnel: equal opportunity. It was to become primarily a compliance function; but it touched upon recruitment, training and development, compensation policies, and even labor relations, changing most of them in fundamental ways. Gene Remoff of ARA Services observed:

> "Title VII did something else, I think. While it challenged many of the shoddy, ill-conceived practices of companies and their industrial relations/personnel functions on the basis of EEO concerns, it also forced a clean up of these practices for all employees. A good example is the required house cleaning

Government Role as of 1977

Perhaps the single most important change, however, has been the increasingly active role taken by government in company personnel matters. Well over two-thirds of the 673 executives surveyed for this report regard government as a major force for change in personnel management over the past ten years. This governmental role is currently centered in three areas of regulation—equal employment opportunity, occupational safety and health, and pension reform. However, a large number of companies participated in the primarily voluntary government-sponsored manpower training and development programs during the years 1968-71, and other governmental activities have had, and are expected to have, major impacts on the personnel management of specific companies. All of these changes, but especially the need to comply with government regulation, have gone far to change management thinking in many companies as to what the personnel function is all about.

Allen R. Janger, *The Personnel Function: Changing Objectives and Organization*, Report no. 712, New York, The Conference Board, 1977

on invalid, unreliable paper-and-pencil tests. A lot of those EEO regulations made good sense from a personnel practices point of view. We were now being called to task by a set of standards. I believe it was a major push forward in the professionalization of the function."

Further Federal regulation of pensions and benefits occurred during the 1970s and 1980s. Moreover, national concern about threats to public health led to occupational health and environmental regulations that are still growing.[9] Today, even the personal habits of employees (in alcohol and drug use, for example) are becoming a public policy and regulatory interest.

The external challenge presented by unions, government regulations, or individual and group lawsuits has been a major determinant of the importance of personnel staff to corporations. Without that threat, the personnel function would be of much less consequence—it might never have developed in the first place. Essentially, the message was that a personnel misstep might cost the corporation millions of dollars (see pages 25-26). This drove public policy deep within the economic concerns that dominate the strategies of private industry.

Competition Introduces a New Element

Competitive pressures—arising from imports and from deregulation—introduced new business emphases during the 1980s. Old-line, well-administered corporations were forced to cut costs, improve productivity, become more flexible and responsive, and raise quality. None of these new demands can be met by following rulebooks and procedures.

This caused personnel to become "part of the business." Even the terminology shifted toward an economic phrase based on productive resources (i.e., capital, natural, and human resources). Business needs brought economic considerations to the forefront of the newly-renamed "Human Resources" function.

This growing competitive pressure did not create new subspecialties, as did the earlier, externally-determined procedures. It simply shifted the dominant influence in managing employees toward business considerations, efficiency, and conservation of resources on a grand scale. Competition established a cost-cutting ethic. It required more flexible pay formulas, and less fixed, long-term employment.[10] Competitive conditions restructured the corporate entity many times, and HR reallocation was at the heart of each reorganization.

Why should the spotlight have fallen so heavily on human resources? Because the cost of labor is the only business cost that can be "managed." Other resources—capital, raw materials and resources, and technology have relatively fixed prices and relatively fixed, or "sticky" costs to a producer of goods or services. But labor costs can be made responsive quickly and fairly easily with good HR work.

Labor costs are being managed with innovations in all of the specialty areas, as well as some new emphases on labor allocation. Some functions can be purchased, subdivided in new ways, and the business "downsized" and restructured to fit new markets and service needs. More use can be made of contingent workers—contract, temporary, free-lance, and part-time. Compensation can be revised so that a substantial proportion is determined by incentive. Quality labor can be found by marketing jobs and the employer's reputation to an untapped segment of the population, rather than by engaging in a bidding war with other employers. Training can be used to develop self-management among workers, thus raising efficiency and rapid response.

In adopting an enterprise-based agenda, the HR function became integrated with line management thinking. While HR retains its external relationship role, it has moved far beyond the rulebooks of personnel handbooks, union contracts, and court decisions. In many cases, it has become seamlessly connected to line management in the operation of the business.

That gives rise to some problems. Corporate management of HR is surrounded and constrained by its past. Nevertheless, professional and academic advisors may create the impression that a "new era" has begun (or, sometimes, a new management fashion). The HR manager feels pressure to adopt a completely new policy and culture in one revolutionary sweep. More than most executives, these managers know that the company is living with the present effects of history.

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[9] Audrey Freedman, *Industry Response to Health Risk*, Report no. 811, The Conference Board, New York, 1981.

[10] Audrey Freedman, "How the 1980's have changed industrial relations," *Monthly Labor Review*, Vol.111, no. 5, May,1988, p.35.

Institute for Personnel Managers—Boston University
The Comprehensive Agenda

I. Today's Rules of Recruitment, Interviewing and Hiring

- Immigration law requirements—and penalties.
- Exactly what kinds of specifications are banned from "help-wanted" ads because they discriminate on the basis of race, sex, age, religion or national origin.
- When you can legally rely on word-of-mouth advertising or referrals to identify prospective job candidates.
- What questions may and may not be asked of job candidates on application forms or during job interviews.
- Employment standards that may present discriminatory problems; customer/co-worker preferences, educational level, language fluency, experience requirements, physical fitness, arrests or convictions, relatives of present employees and credit checks.
- Avoiding discrimination in the way you assign employees to particular jobs.
- The four ingredients of a prima facie case of discrimination in hiring.
- The current potential for legal liability in the physical exams you administer to your employees—before and after employment.

II. Today's Rules of Performance Appraisal and Promotion

- The most important features of court-approved performance appraisal systems.
- Your current legal obligation to conduct regular, unbiased performance appraisals and how to avoid negligence in doing so.
- Eight legally fatal defects in most performance appraisal systems.
- Where employment discrimination may now arise in procedures for employee bidding on jobs, predetermined job progression paths, promotion based on seniority lists, job upgrading and job training opportunities.

III. Today's Rules of Termination—Employment-at-Will and Unjust Discharge

- When "just cause" can be found in insubordination, poor attitude, unsatisfactory job performance, poor attendance or criminal activities.
- How to discern when there may not be a "public policy" exception to the traditional legal doctrine of Employment-At-Will: termination based on refusal to commit a crime, willingness to serve jury duty, pursuit of legitimate political activities, or filing a discrimination complaint against the employer.
- The most current explanation of the concept of "whistle-blowing" and when you may use it as a basis for firing an employee.
- How you may be setting yourself up now for a complaint of "abusive discharge."
- The specific circumstances under which language in your job advertisement, offer letter, application form or employee handbook may not be interpreted as an express or implied contract of employment, precluding arbitrary discharge.
- The importance of progressive discipline.

IV. Today's Rules of Affirmative Action and How To Meet Them

- The present legal status of affirmative action programs: Are they required or simply advisable?
- The special affirmative action obligations of organizations now doing business with the federal government.
- Are the affirmative action obligations for smaller businesses now different from those for Fortune 500 corporations?
- How to conduct a required EEO utilization analysis and then act properly.
- Where "quota-type" affirmative action plans stand after the U.S. Supreme Court decision in the Memphis Firefighters case.

V. Today's Rules of Sex Discrimination

- Forms of discrimination based on a woman's pregnancy, abortion, childbirth or related medical conditions.
- How to take into account factors such as sexist leadership skills, aggressive selling ability, physical strength, combative skills or family responsibilities--without discrimination on the basis of sex.
- Situations where sex may constitute a Bona Fide Occupational Qualification.
- When you may now allow the preferences of coworkers, customers or the public to affect your hiring decisions.
- Steps you may take to protect the fetuses carried by your pregnant employees.
- Potential sex discrimination problems in your pension or retirement plan.

- When a seniority system that perpetuates prior discrimination will and will not be acceptable to the courts.
- Statements which constitute evidence of discrimination.

VI. Today's Rules of Sexual Harassment

- What kinds of "sexual harassment" may now constitute employment discrimination.
- The difference between "sexual harassment" and "innocuous social interaction."
- The employer's different levels of liability depending on the "employment consequence" of the harassment.
- When does sexual harassment create a legally-prohibited "intimidating, hostile or offensive" working environment.
- How legally to avoid the serious complaint of constructive discharge through sexual harassment.
- The latest EEOC regulations and recent court cases.

VII. Today's Rules of Handicap Discrimination

- Current, working definition of the term "handicap" and a listing of physical and mental conditions it encompasses.
- The special affirmative action duties of federal contractors with regard to handicapped job candidates and employees.
- Language of the Federal Rehabilitation Act with which you must be familiar.
- Are you covered by state law banning employment bias against the handicapped?
- How much money must you spend and what changes must you make in order to satisfy the legal requirements of "reasonable accommodation."
- The legal issues of AIDS in the workplace.

VIII. Today's Rules of Age Discrimination

- Demographics of the typical age discrimination complainant.
- Which age groups are protected in what kinds of employment situations.
- The deadly potential liability of state age discrimination statutes.
- Specific age-related language which may or may not be used in job ads.
- When age may be a Bona Fide Occupational Qualification.
- Current details of possible defenses against charges of discrimination under the federal Age Discrimination in Employment Act (ADEA).
- Guidelines on your several defenses to a charge of discrimination on the basis of "reasonable factors other than age": workforce cutbacks for economic reasons, job elimination through merger or acquisition, misconduct or job performance.
- How big is the loophole of the ADEA's mandatory retirement exception?
- The time bombs of the "front pay" and "liquidated damages" remedies uniquely available under the ADEA.
- Statements which constitute evidence of age discrimination.

IX. Today's Rules Concerning Problem Employees and Employee Assistance

- Your current responsibilities when employee's personal problems affect their performance on the job.
- The only acceptable guidelines for acting on your suspicions that an employee is engaged in criminal activities.
- When "work force morale" may be a legitimate reason for disciplining an employee or terminating their employment.
- How to straighten out employees whose sub-par performance has been tolerated by a previous supervisor.
- Handling employees whose job performance is mediocre, but not bad, or fluctuates between satisfactory and unsatisfactory.
- The employee who is a constant source of well-intended complaints about company operations and whose work is quite satisfactory.
- Recommended steps for handling specific kinds of employee disciplinary problems (tardiness, absenteeism, fighting, insubordination, alcohol/drug abuse).
- Employee assistance programs.

X. Plus—The Current Law Enforcement Climate Re: Employment Discrimination

- The current legal mandates and procedures of the key law enforcement agencies in employment discrimination: Equal Employment Opportunity Commission (EEOC), Office of Federal Contract Compliance Programs (OFCCP), Department of Labor (DOL) and state Human Rights or Equal Employment Opportunities agencies.
- Current and changing enforcement attitudes and the tactics agencies will use to compel your compliance.
- What an EEOC "charge" is and how it differs from a full-blown court suit.
- Current ploys and strategies of employees and their lawyers for squeezing a monetary settlement out of you.

The Future of Training

As HR management becomes increasingly critical to business operations, training for the job gains importance. The "easy" matters concern technical training in specialized areas like compensation or benefits administration. Somewhat broader subjects focus on developmental work, such as the principles of employee and managerial training itself, career management, recruitment and selection.

The broader concerns are the most difficult. For example, should HR work be a part of all managerial training since it is an essential aspect of managing? Or, perhaps the hardest question, what exactly is the unique content of HR management training? Is it a separately identifiable "discipline?" Is it a discipline at all, in the academic sense, or more of a performance art that is acquired on-the-job rather than through formal education?

Technical Training

Specialized training in such subjects as compensation and benefits administration, or compliance with government regulations, is readily available from professional societies, training institutes, and the extension departments of universities. The pattern seems to be for people who have been hired or promoted into technical HR jobs to take short courses. These one-day to week-long courses provide detailed guidance and, usually, step-by-step manuals for carrying out one program or element in personnel work. The reason for this type of training is that a course in the details of regulatory compliance has no part in general academic work. Yet it is essential knowledge for personnel specialists, usually at a point where new tax laws, pension regulations, or compensation plans are being introduced. A listing of some of these short-term training institutes (see box) indicates their timeliness and specificity.

Some longer post-graduate courses cover broader and less technical aspects of HR responsibilities. An example is "The New Human Resource Executive: Leadership at the Policy-Making Level" sponsored by the Institute of Labor and Industrial Relations at the University of Illinois and the SHRM. In this case, course content includes demographic and social trends, organization development "principles, concepts, and theories," economic pressures, aspects of psychology, labor/management matters, and organizational structure, among other subjects.

Beyond these courses lie the employee development fields of expertise. For example, HR departments are themselves trainers of other employees and managers. They usually handle recruitment and selection of new employees, and career management in the firm. A background education in psychology, counseling or sociology is useful, though not always required.

Some of the short-term course material offered by professional associations and university extensions deals with subjects such as training in corporations. Corporate development programs may be taught as legal, technical subjects, or they may be based on the

Titles of Selected Technical Courses in Personnel

Issues in Personnel Law
Strategic HR Planning
Preventing Employee Lawsuits
Performance Appraisal
Designing and Implementing Incentive Compensation Strategies
Job Evaluation and Pay Administration
Effective Employee Communications
Workers' Compensation Administration
Designing a Flexible Benefit Program
Benefits and the Law
Interviewing: a Strategic Approach
Equal Opportunity/Affirmative Action
Developing and Conducting Employee Opinion Surveys
Job Analysis
Preventing Sexual Harassment
OSHA Compliance
How to Hire and Supervise Handicapped Individuals
Basic and Advanced Wage and Salary Administration
Employee Discipline and Grievance Handling
Negotiating and Administering a Labor Contract

Personnel Accreditation Institute

Since PAI first began accrediting HRM professionals in 1976, it has established an acknowledged standard—its nationally recognized codified body of knowledge for the HR field.

Why Accreditation is Important to You

For you, accreditation can mean:

- National recognition of professional achievement
- An unparalleled opportunity to demonstrate mastery of the HRM Body of Knowledge
- A career aid for advancement
- Process builds pride and confidence in your HRM decision-making
- A personal challenge to stay abreast of new developments in HRM
- If you are a specialist, the accreditation process assists in gaining command of the body of knowledge across all HR functions
- A visual reminder of your professional status—through display of your earned designation on business correspondence and handsome Certificate of Accreditation

Eligibility

The Personnel Accreditation Institute grants accreditation after the applicant has:

1. Verified current full-time professional exempt experience in the field as either a practitioner, educator, researcher or consultant, and...

2. Passed a comprehensive written examination to demonstrate mastery of knowledge.

To earn the basic generalist designation PROFESSIONAL IN HUMAN RESOURCES (PHR) you must have:

- Four years of professional HRM exempt experience

OR

- Two years professional HRM exempt experience and a bachelor's degree
- One year professional HRM exempt experience and a graduate degree

AND

- Pass a comprehensive examination

As a HRM professional, accreditation in human resource management is vitally important to you and to maintaining the high standards of the profession.

The Personnel Accreditation Institute is a research and accrediting non-profit organization founded by SHRM. Contributions to PAI are tax-deductible under the provisions of Section 501(c)(3) of the Internal Revenue Code. Merit award points are granted to any SHRM affiliated chapter sending a donation to the Institute and/or inviting and Institute spokesperson to present a program on HRM accreditation.

Source: *Who's Who in HR, 1990 Directory*, Society for Human Resource Management, p. 58.

psychology of learning and growth. Similarly, recruitment and selection courses based on avoiding litigation tend to be highly technical. However, when recruitment/selection is directed toward building a strong work force, it is likely to be based more broadly on the philosophy and methods of appraising skill, experience, and personality.

Society for Human Resource Management

Some 44,000 members of the professional Society for Human Resource Management (SHRM) are working in the field in the U.S. The SHRM provides network and information services, local and national meetings, publications, and professional accreditation that includes experience and a qualifying examination.

In 1989, this group was titled the American Society for Personnel Administration, and its magazine was *Personnel Administrator*. Significantly, its title has become broader, and bureaucratic implications have been excised. SHRM is the U.S. member and a founder of the World Federation of Personnel Management Associations.

SHRM offers a variety of services that educate and keep human resources managers up-to-date in personnel management techniques, legal and legislative developments, and movements in the economy that affect employment. The members' two main information channels are publications and meetings—though electronic networking is beginning to supplement other means of gathering facts and help.

The magazine and newspaper/newsletter output includes analyses of issues such as drug testing, work-and-family considerations, or effective recruitment methods; discussions about legal trends, court decisions, and new government regulations; reports about the representation activity of the Society before Congress, and a legislative update; and survey data on wages, benefits, and other personnel matters. Monographs on specific subjects, guidebooks, and manuals are published regularly, sometimes in conjunction with The Bureau of National Affairs or Prentice-Hall/Simon Schuster.

SHRM holds a large national annual conference and many regional meetings, as well as state-level and local chapter gatherings.

A training issue arises in the accreditation activity of SHRM. Its Personnel Accreditation Institute aims to create a clear-cut professional path for HR as a "specialist" group (see box). However, the two levels of certification fully acknowledge practical experience in the re-

The Education and Training of Human Resource Management/Personnel Specialists

by David Lewin

Professor of Business Columbia University

Where do human resource management/personnel specialists receive their training and what type of training do they receive? There is no single answer to this question. New personnel specialists are typically recruited from colleges and universities upon completion of the bachelor's degree. The fields represented by such "specialists" include psychology, economics, social psychology, sociology, social work, and business administration, among others. Further, some of these entry-level specialists receive their academic training in schools and departments of industrial relations, such as those found at Cornell, Illinois, Minnesota, Iowa and other universities.

What most of these programs, except perhaps business administration, do not provide is a business or organizational context for personnel management studies and practice. Consequently, the entry-level personnel specialist recruited from an undergraduate program typically has little knowledge of business strategy and policy, marketing, accounting, finance, operations, research and development, and other components of business enterprise.

Perhaps for this reason, there has in recent years been some upgrading of the recruitment and selection of new personnel specialists. Specifically, businesses are increasingly drawing on graduates of MBA programs to staff personnel departments. In addition, however, many of these same organizations have replaced the departmental and job title of "personnel" with that of "human resources." While changes in terminology sometimes represent a bandwagon or fad effect, this change apparently signals an upgrading of the personnel function to reflect a higher level, more strategic approach to the management of HR in business organizations.

It is ironic, then, that relatively few MBAs in the U.S. specialize in HR management; most concentrate in finance, marketing, international business, and other specialties, despite the fact that most MBA programs offer one or another type of concentration in HR management. The bottom line is that the demand for HR management (or personnel) specialists by business is very unlikely to be filled by a supply of MBA graduates.

What of the practicing HR management/personnel specialist? The numbers of such technicians are expected to grow manyfold during the '90s (see data in Chapter 1). Where does this individual receive specialized training or development? One "answer" seems to be in the one and two-day seminars, conferences, and workshops conducted by such organizations as the American Management Association, American Compensation Association, International Personnel Management Association, among other organizations.

Other HR managers, especially at mid- and senior-levels, take week-long, off-site programs, usually acquiring a certificate of completion. What does not exist in this field is a uniform set of training and developmental experiences, standard requirements for knowledge maintenance and upgrading, or, most basically, certification for entry to the field.

It remains true that there is no single route into HR management and no common set of standards by which to judge new entrants to the field. Much of what practitioners learn in this area continues to take the form of on-the-job training. Whether or not this approach will serve the HR management specialty or business organizations more effectively in the '90s is a question well worth pondering—as is an alternative approach featuring common academic training, developmental experiences, and, above all, certification on a one-time or recurring basis.

April 1990

quirements shown. In fact, even a graduate degree must be accompanied by at least one year of HR experience to attain the lower of two levels of accreditation. An examination is also administered for both levels.

Academic Training

Most top-level HR executives have completed postgraduate work, much of it at graduate schools of business.[11] However, few graduate with a concentration in human resources. In fact, the American Association of Collegiate Schools of Business (which accredits business schools) does not even include HR management as a required subject within MBA programs.[12] The standard curriculum of many business schools has recently been re-examined and criticized its emphasis on marketing and financial management is seen as too limited. In an interview,[13] Richard Cyert, president of Carnegie Mellon University, observed:

> "Q: Has the great post-World War II American business school expansion been a failure?
>
> "A: I wouldn't say it's been a failure, but certainly its weak spots have been exposed. Our business schools have let down society by not doing a better job of truly studying management. Looking at human resources and human-resource development, looking at questions of how you improve productivity, how you involve your work force to do a better job—these are the kinds of things we should have been doing"

---

[11] *Human Resource Executive*, September, 1988, p. 45.

[12] David Lewin, "The Industrial Relations (IR) Content of MBA Degree Programs in the U.S.," *Proceedings of the Forty-First Annual Meeting of the Industrial Relations Research Association*, Dec. 28-30, 1988, p. 475.

[13] *Wall Street Journal*, April 13, 1990, p. B-1.

Is Human Resources a Separate Profession?

The observations of academics presuppose some sort of formal training that can be clearly identified as "human resources management" by subject. This moves in the direction of a professional identity. Yet the other side of this story is one of general management (e.g., the management of an enterprise or organization through the people who work within it).

Many of the top HR executives on The Conference Board's Advisory Council referred to this activity. They are advisors and counselors to the CEO; they are members of the executive committee; they are part of acquisition teams; they may set up and run a new business within the firm. These job activities are undertaken within the company, as general management. They are not part of a "profession" with external identity and ties.

Some of these roles were discussed at a Wharton School meeting of CEOs, top HR executives, and faculty. The focus was on what are often called "soft" aspects—society, teamwork, accountability, involvement, capability of the work force, human outcomes of business shifts, needs for security, interpersonal relationships, structure of organizations, mutuality and participation. Implicitly, the group knew that these subjects comprise a good deal of CEO concerns.

But, in contrast, business objectives are "hard": strategies and actions directed toward making money, prevailing against the competition, and surviving as an organization. That is the hard economic command.

The interplay of soft and hard is present in all businesses. So the HR aspect of all management jobs is to mediate between these two realities: the hard reality of economic objectives, and the soft instrument of human society and behavior.

Exhibit A: Organization Charts for the Human Resources Function

Chart 1

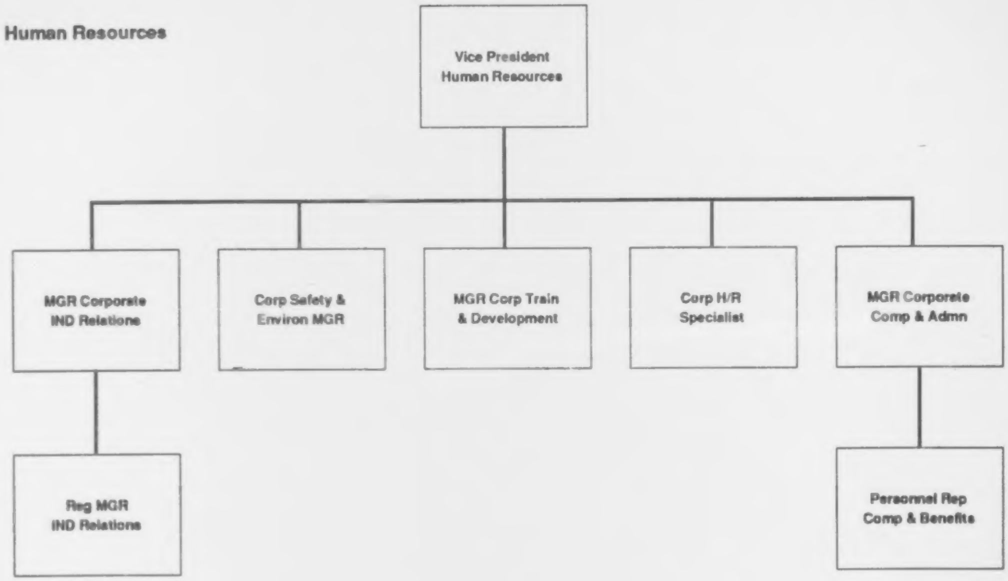

Human Resources
Vice President Human Resources
MGR Corporate IND Relations
Corp Safety & Environ MGR
MGR Corp Train & Development
Corp H/R Specialist
MGR Corporate Comp & Admn
Reg MGR IND Relations
Personnel Rep Comp & Benefits

Chart 2

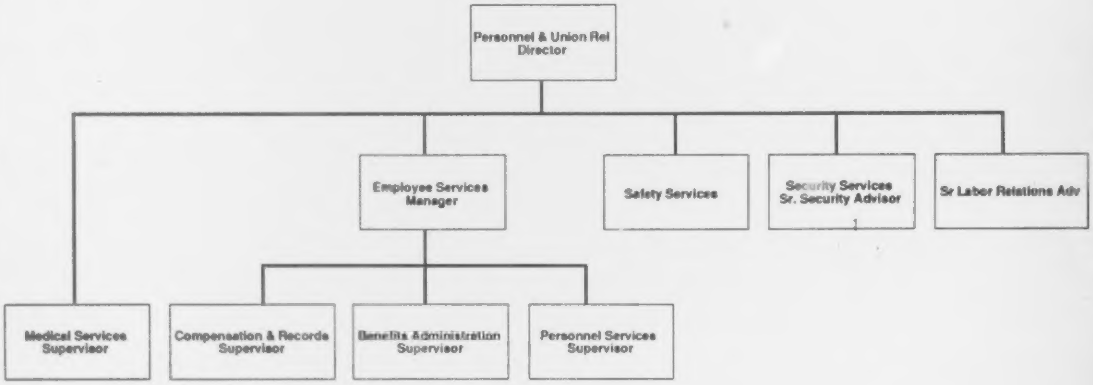
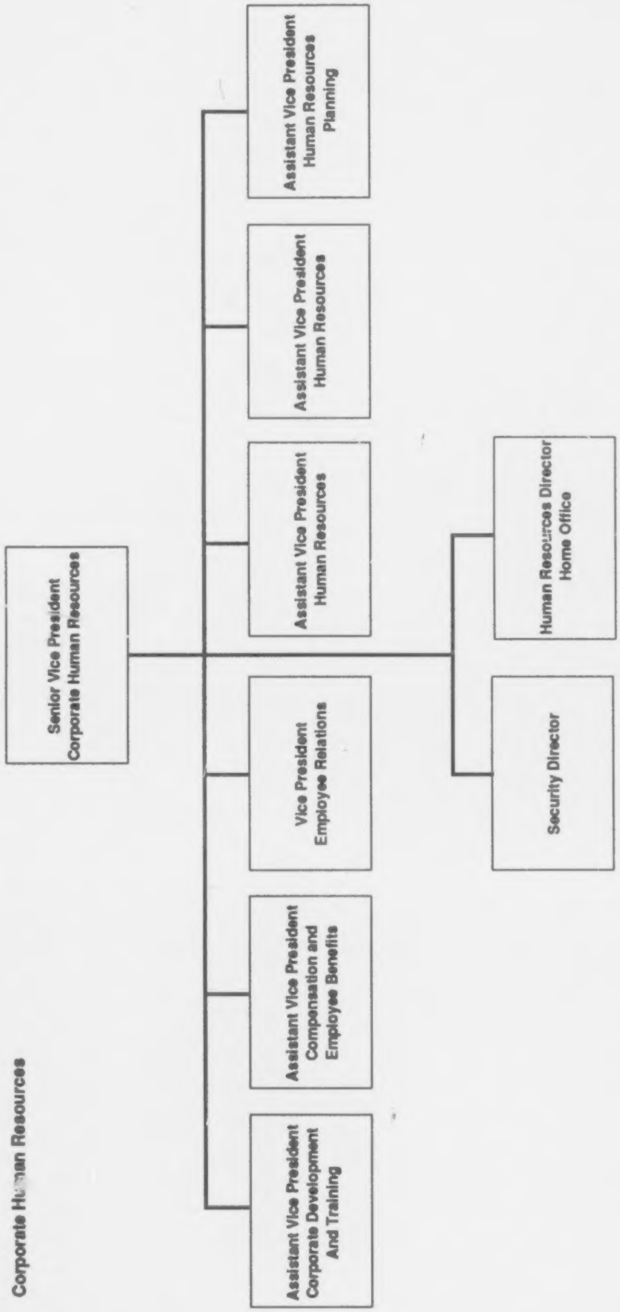

Personnel & Union Rel Director
Employee Services Manager
Safety Services
Security Services Sr. Security Advisor
Sr Labor Relations Adv
Medical Services Supervisor
Compensation & Records Supervisor
Benefits Administration Supervisor
Personnel Services Supervisor

Chart 3



Corporate Human Resources

Senior Vice President
Corporate Human Resources
Assistant Vice President
Corporate Development
And Training
Assistant Vice President
Compensation and
Employee Benefits
Vice President
Employee Relations
Assistant Vice President
Human Resources
Assistant Vice President
Human Resources
Assistant Vice President
Human Resources
Planning
Security Director
Human Resources Director
Home Office

Chart 4

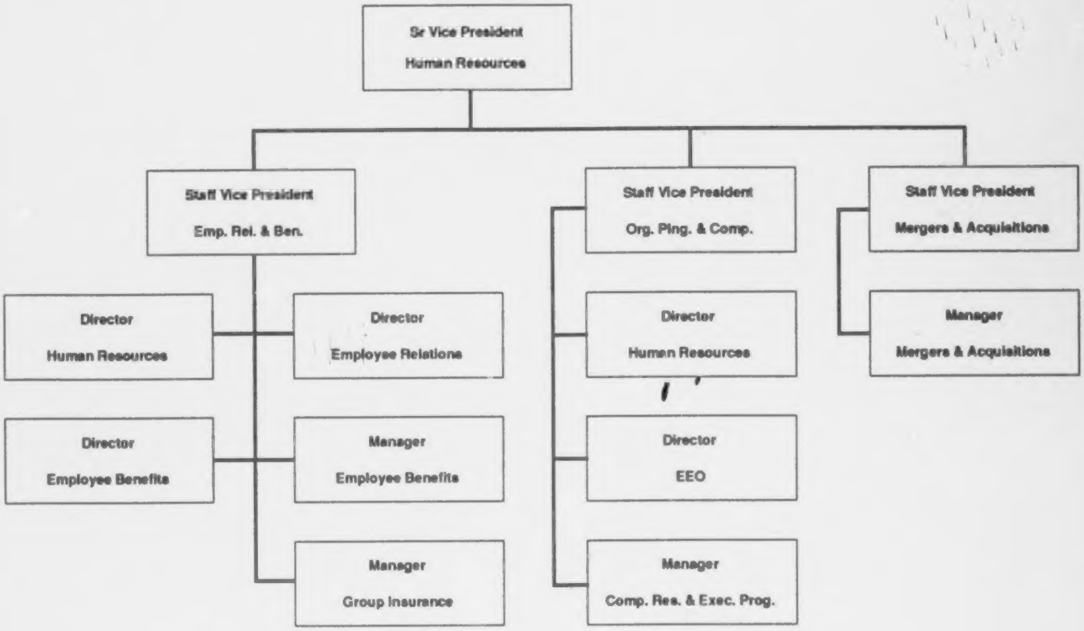

Sr Vice President
Human Resources
Staff Vice President
Emp. Rel. & Ben.
Director
Human Resources
Director
Employee Relations
Director
Employee Benefits
Manager
Employee Benefits
Manager
Group Insurance
Staff Vice President
Org. Plng. & Comp.
Director
Human Resources
Director
EEO
Manager
Comp. Res. & Exec. Prog.
Staff Vice President
Mergers & Acquisitions
Manager
Mergers & Acquisitions

Chart 5

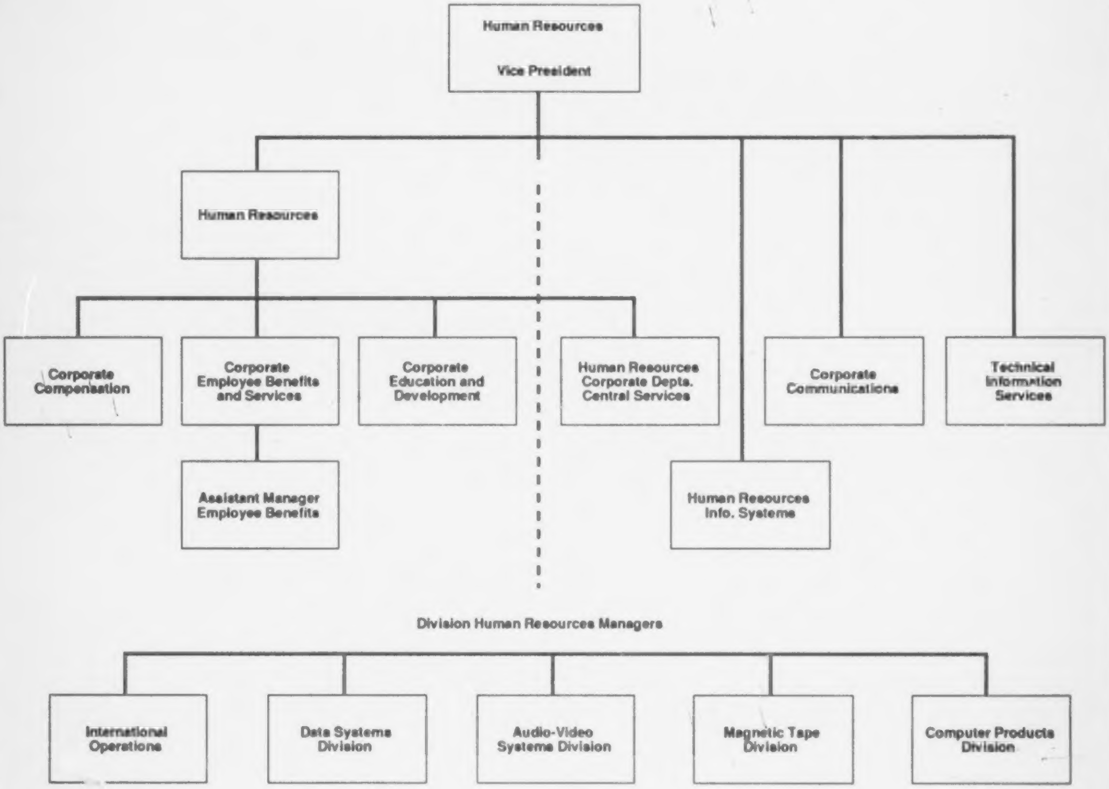

Human Resources
Vice President
Human Resources
Corporate Compensation
Corporate Employee Benefits and Services
Corporate Education and Development
Human Resources Corporate Depts. Central Services
Corporate Communications
Technical Information Services
Assistant Manager Employee Benefits
Human Resources Info. Systems
Division Human Resources Managers
International Operations
Data Systems Division
Audio-Video Systems Division
Magnetic Tape Division
Computer Products Division

Chart 6

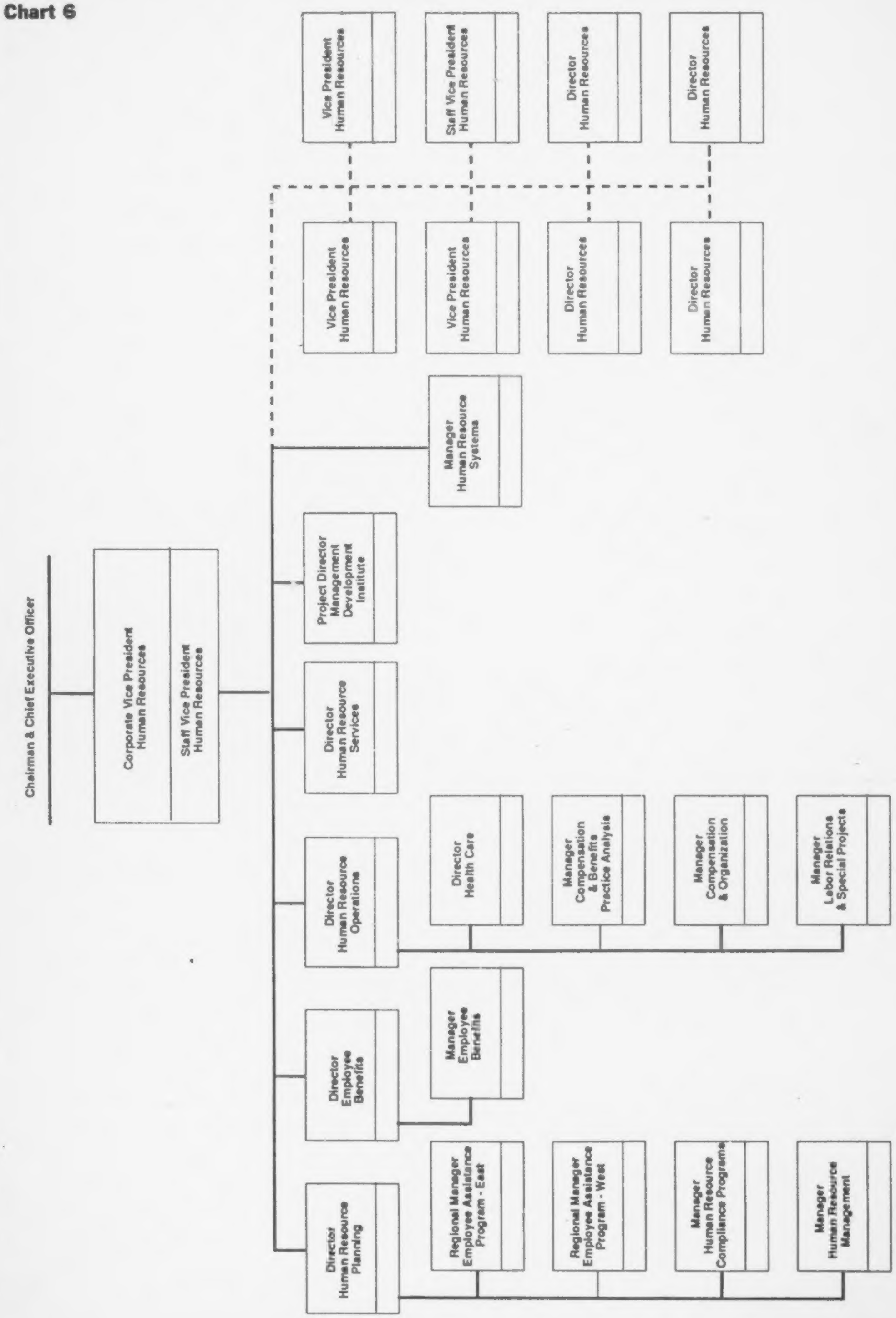

Chairman & Chief Executive Officer
Corporate Vice President Human Resources
Staff Vice President Human Resources
Director Human Resource Planning
Director Employee Benefits
Director Human Resource Operations
Director Human Resource Services
Project Director Management Development Institute
Manager Human Resource Systems
Regional Manager Employee Assistance Program - East
Regional Manager Employee Assistance Program - West
Manager Human Resource Compliance Programs
Manager Human Resource Management
Manager Employee Benefits
Director Health Care
Manager Compensation & Benefits Practice Analysis
Manager Compensation & Organization
Manager Labor Relations & Special Projects
Vice President Human Resources
Vice President Human Resources
Director Human Resources
Director Human Resources
Vice President Human Resources
Staff Vice President Human Resources
Director Human Resources
Director Human Resources

Chart 7

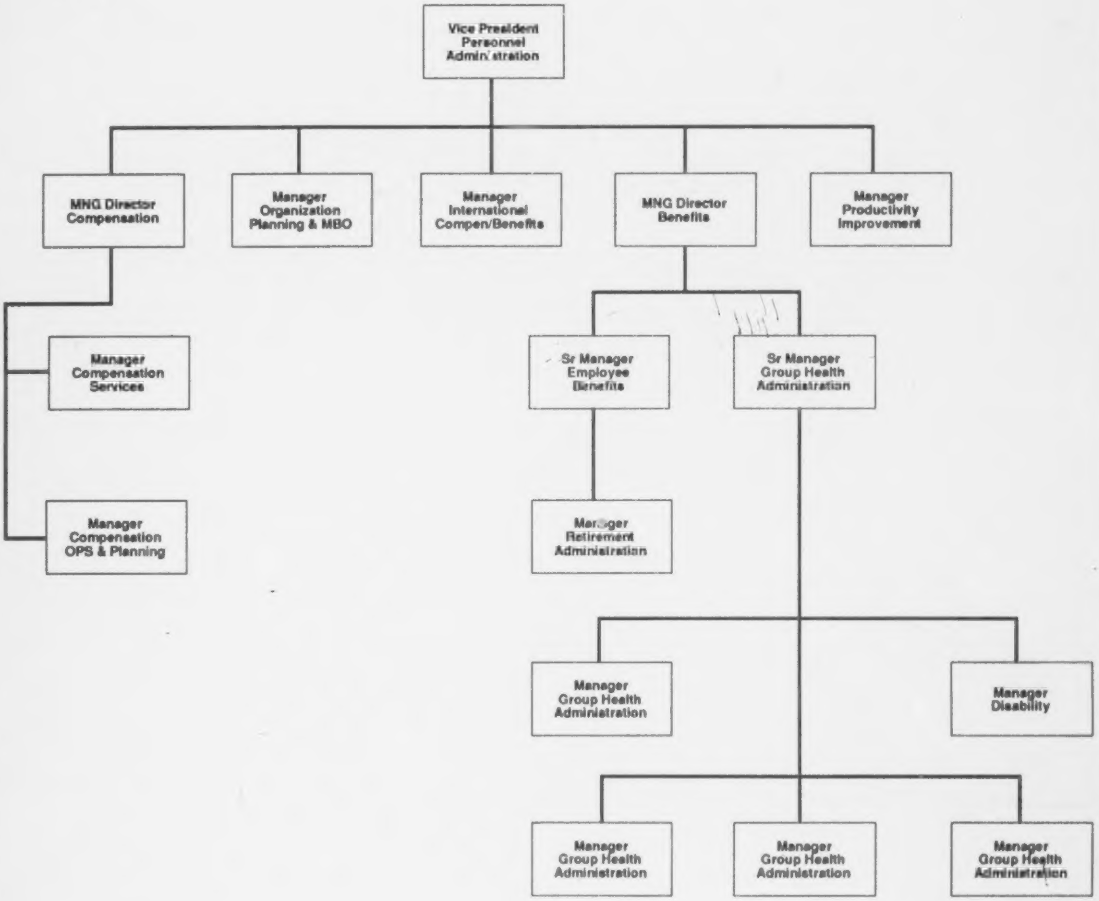

Vice President Personnel Administration
MNG Director Compensation
Manager Organization Planning & MBO
Manager International Compen/Benefits
MNG Director Benefits
Manager Productivity Improvement
Manager Compensation Services
Manager Compensation OPS & Planning
Sr Manager Employee Benefits
Sr Manager Group Health Administration
Manager Retirement Administration
Manager Group Health Administration
Manager Disability
Manager Group Health Administration
Manager Group Health Administration
Manager Group Health Administration

Chart 8

Employee Relations Department

- CHAIRMAN OF THE BOARD OF DIRECTORS & CHIEF EXECUTIVE OFFICER
  - SENIOR VICE PRESIDENT-EMPLOYEE RELATIONS
    - Executive Secretary
    - VICE PRESIDENT-BENEFITS ADMINISTRATION
      - Administrative Assistant
      - Manager-Noncontributory Pension Benefits
      - Manager-Contributory Pensions, Savings & SUB Benefits
      - Manager-Insurance Benefits
      - Administrative Assistant-Health Cost Containment
    - Manager-Executive Compensation
    - Director-Personnel
      - Manager-Personnel Planning
      - Manager-Organization & Personnel Planning
      - Manager-BIMS
      - Manager-Employee Services
      - Manager-Employee Services
    - General Manager-Compensation
      - Manager-Compensation
      - Manager-Compensation Services

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12/90

The Conference Board

Report Number 951

The Marketing Plan in the 1990s

- *The vertical links between marketing and corporate strategy are tightening*
- *Marketing plans are more customer-oriented*
- *The service sector has dramatically increased emphasis on marketing*

About The Conference Board

Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

To accomplish this, The Conference Board strives to be the leading global business membership organization that enables senior executives from all industries to explore and exchange ideas of impact on business policy and practices. To support this activity, The Conference Board provides a variety of forums and a professionally managed research program that identifies and reports objectively on key areas of changing management concern, opportunity and action.

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1990 by The Conference Board, Inc.

Printed in the U.S.A.

ISBN No. 0-8237-0397-5

The Marketing Plan in the 1990s

by Howard Sutton

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About the Author

Howard Sutton is the author of *Competitive Intelligence* and *Rethinking the Company's Selling and Distribution Channels*, published by The Conference Board, and *Contemporary Economics*, published by Holt, Rinehart and Winston. He was a Senior Research Associate at The Conference Board from 1984 to 1990.

Before joining the Board, he was a reporter for *Consumer Reports* magazine, a producer of films for "Sesame Street" and other educational programs, and a vice president at Needham, Harper & Steers, an advertising agency. He is currently a speechwriter and communications consultant in New York.

From the President

"The marketing plan embodies, in capsule form, a company's realistic hopes and intentions for competing successfully in the marketplace...It is a virtual treaty by which general management and senior marketing management are able to negotiate delegated responsibilities for the company's marketing effort."

These words, from The Board's 1981 report on marketing planning, are still true today. However, there have been changes. One of the most significant of these is a much more deliberate effort to have the marketing plan mesh with the overall plan for the business. Marketing is now considered integral to corporate strategy. Top managers are more likely to provide preliminary guidance for the preparation of the marketing plan and to insist on final approval.

The Conference Board appreciates the participation of the executives who responded to our survey and who gave generously of their time in follow-up interviews. Without their assistance, this report would not have been possible.

PRESTON TOWNLEY
President and CEO

Acknowledgments

The Conference Board thanks Dr. Peter R. Dickson, Crane Professor of Strategic Marketing at Ohio State University, for his valuable assistance in designing the questionnaire, reviewing drafts, and conducting follow-up interviews of survey respondents.

The author also wishes to acknowledge the editorial contributions of Margaret Hart, senior editor, research publications, at The Conference Board.

Executive Summary

Competition has produced several significant changes in the marketing planning process and the form of the plan itself.

Rediscovering the Marketing Concept. This is the idea that the central purpose of a business enterprise is not to produce goods or services but to acquire and satisfy customers. The marketing concept emerged in the 1950s, but, in the intervening years, in many companies it has proved to be a comforting cliché rather than a guiding principle. With the increase in competitive pressure from Europe and Asia, U.S. companies have been compelled to relearn the importance of focusing on the customer.

Marketing: A Top Management Responsibility. Managers at the highest level of the business unit have become much more involved in making marketing decisions. Top managers are not only more likely to provide preliminary guidance to those who prepare the marketing plans, but they are also more likely to insist on having final approval.

Integrating the Marketing Plan With the Strategic Plan. One of the most significant changes in the planning process is a much more deliberate effort to have the marketing plan mesh with the overall plan for the business. Where marketing used to be considered a relatively independent operation, it's now considered integral to the corporate strategy.

Integrating the Marketing Function with Other Functions. As the vertical links between marketing and corporate strategy have tightened, the horizontal links with other departments, such as manufacturing, engineering, research and development, and finance, have also tightened. Managers expect and get more input from people in other parts of the organization. There is also more emphasis on working as a team.

The Changing Role of the Marketing Executive. With the increased emphasis on teamwork, there seems to be less emphasis on functional differences. Marketing executives are now likely to see themselves as professional managers first, and specialists second.

Planning as a Continual Process. Because markets are changing faster than ever before, marketing planners have become much more conscious of the need to modify their plans throughout the year. Plans are subject to frequent review and revision. The main impetus for revision is to counter competitive moves.

Changes in Content. The contents of marketing plans have changed. The plans are now much more customer-oriented, they contain more competitive analysis, and they are better reasoned and more realistic than they used to be.

Changes in the Service Sector. Banks, insurers, transportation companies, and other representatives of the service sector have shown a dramatically increased interest in marketing. As a result, they are making a concerted effort to improve their planning, their plans, and the implementation of their plans.

Problems and Prospects. For those who have to assemble marketing plans, the main problem is getting the necessary cooperation—the right amount of input in the planning stage and the right amount of commitment in the implementation stages. Managers report that the main shortcoming of marketing plans is that they aren't realistic enough. For example, there may be a lot of pressure to set overly optimistic goals, or the planner may simply not have enough information to produce a competent plan. Nevertheless, the participants in this study were quite confident that their companies would rely even more heavily on marketing plans in the future.

Method

The data were collected in two stages. In the first stage, a six-page questionnaire was mailed to 1,216 executives with marketing, sales, planning, and marketing research titles, in major corporations in the United States, including several that are subsidiaries of large European and Japanese firms. Completed questionnaires were received from 223 executives. About half of the respondents reported on the practices of the company as a whole; the other half reported on the practices of a particular unit or division. In a few cases, there were responses from different units of the same company. About three quarters of the respondents had the rank of vice president or higher.

In the second stage, lengthy follow-up interviews were conducted with 13 respondents who had provided unusually rich material in their questionnaires. These interviews have been drawn on throughout this report to amplify the survey findings.

The survey responses have been divided into three groups, according to the type of company represented by the respondent: manufacturers of products sold to industrial users, manufacturers of products sold to consumers, and companies that chiefly supply services. Some of the questions were the same as those included in our 1980 questionnaire, and, where the responses were significantly different, there are charts that illustrate the changes.

This report is the latest in a continuing series of research investigations of marketing planning in corporations. It updates David S. Hopkins' *The Marketing Plan (Conference Board Report 801, 1981).*

The Planning Process

> There is only one valid definition of business purpose: to create a satisfied customer. It is the customer who determines what the business is. Because it is its purpose to create a customer, any business enterprise has two—and only these two—basic functions: marketing and innovation. [1]
>
> — *Peter F. Drucker*

Competition has forced many managers to come to the same conclusion. This report deals with the first of those two basic functions: marketing.

Marketing has become much more important than it was just a few years ago, and marketing executives are focusing much more carefully on their customers. The results of a Conference Board survey show that the *process* of preparing a plan is more important than the document itself. As General Dwight Eisenhower said during World War II, "Planning is everything, plans are nothing."

A marketing plan does compel attention, though. It makes the marketing team concentrate on the market, on the company's objectives, and on the strategies and tactics appropriate to those objectives. It's a mechanism for synchronizing action.

A marketing plan is often referred to as a living document. It's the product of a great deal of discussion, analysis, innovation, thinking and rethinking. To borrow Joseph Schumpeter's provocative term, the planning process is an act of "creative destruction."

Although the marketing planning process can be described in a linear fashion—as in Diagram 1 (on page 10)—it may be more appropriate to think of the planning process in general as a circular flow—as in Diagram 2 (on page 10). The plan may be published on a particular date every year, but imposing a deadline is usually simply a device for making sure that the team agrees on the key ideas and projects, and that those ideas are transferred into print.

Purpose of the Plan

The plan has three purposes: to communicate the team's intentions to top management, to justify budget requests, and to give the marketing team points of reference for charting progress—week by week, month by month. In commenting on how the marketing team thinks of the plan, one executive stressed that the plan must be continually useful and easy to change:

> You can't put together a plan, put it up on the shelf, and go run your business. It has to be the type of document that you can pull out and use all the time. You have to keep asking, "Why are we doing this? Are we on target? Are we meeting our product-introduction dates? Are we meeting our forecasts?" And that's not to say that the plan is cast in concrete either. You learn something in the first six months, and you change the plan. That's also the beauty of updating the plan every year: you can make changes.
>
> — *Manager, business planning,*
> *electrical equipment manufacturer*

Another saw the plan as a road map:

> We encourage people to think of two things when they're writing their marketing plan. One is to make sure that there's some kind of summary for those people who need to approve the plan. The other thing is to provide the documentation you need to monitor change and measure it. We say, "Hey, this is primarily your road map for running and monitoring this part of your business for the next year or so. Use it as a hands-on, living document for checking your progress."
>
> — *Manager, business planning, corporate marketing*
> *services, diversified industrial products manufacturer*

A third saw the planning process as a way of weeding out the less promising options and the plan as a snapshot, a picture of a scene that is always changing:

> If anything, it's a weeding-out process at best. It's not only summarizing the decision-making, the thinking, the crunching, the inflow analysis, and interpretation of information. It's saying, "Look, we have all of these alternatives. We have all of these options. Which ones are the most promising? Those are the ones we're going to write down on the paper." That's really what it is: a priority-setting, weeding-out process. At some

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[1] Peter F. Drucker, *The Practice of Management* (New York: Harper & Row, 1954), p. 37.

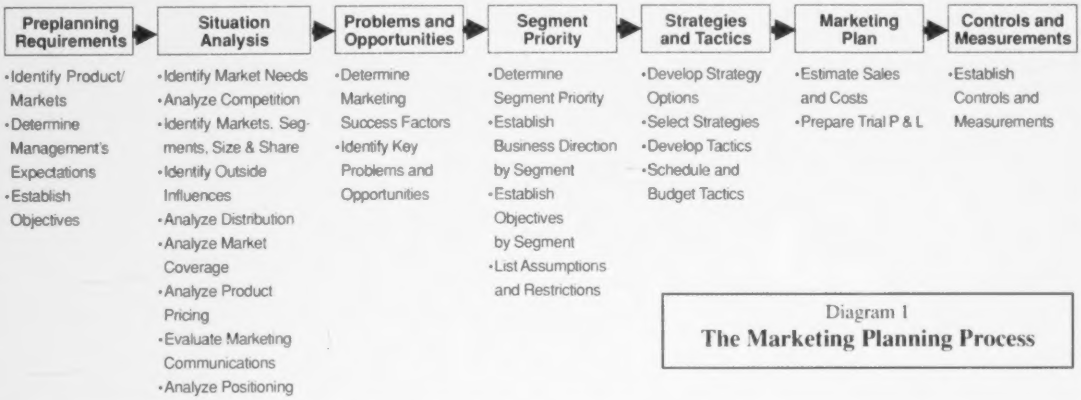
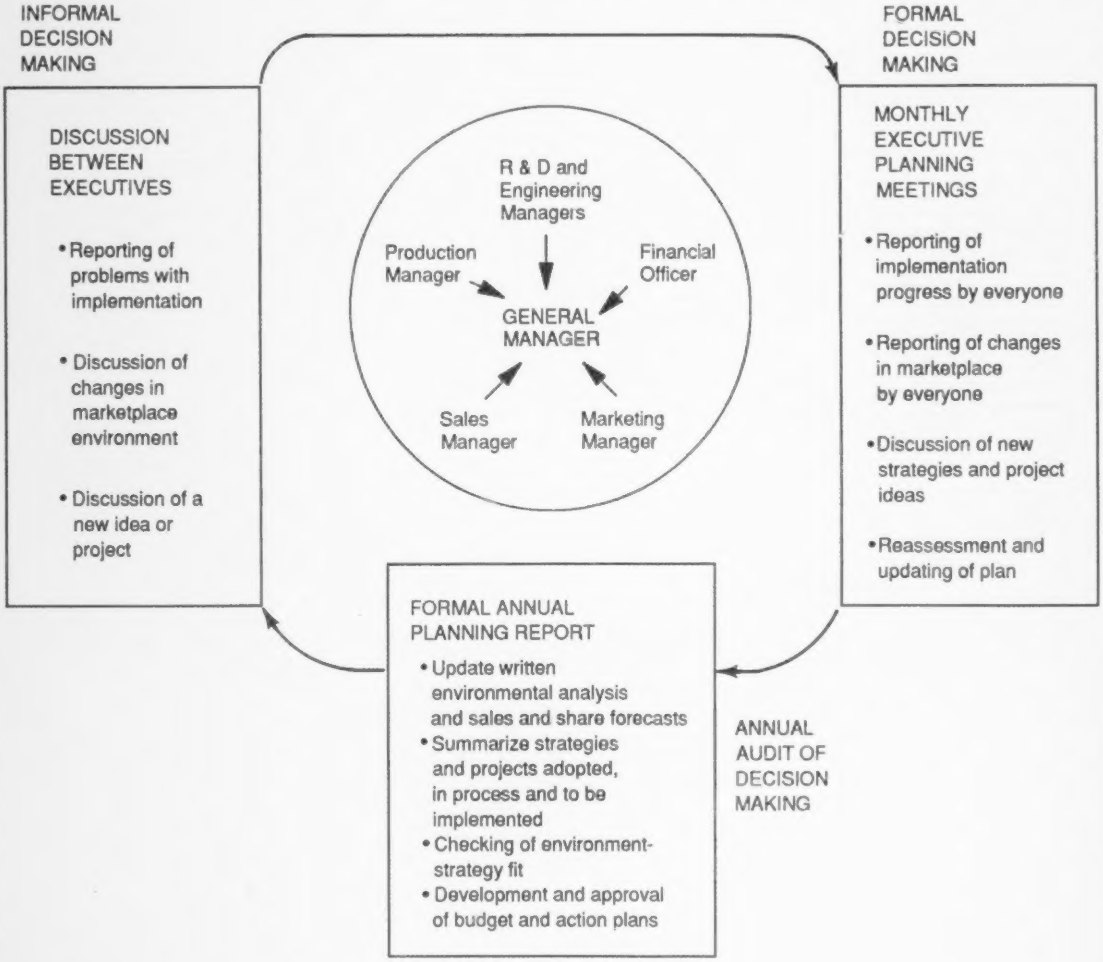

Preplanning Requirements
•Identify Product/ Markets
•Determine Management's Expectations
•Establish Objectives
Situation Analysis
•Identify Market Needs
•Analyze Competition
•Identify Markets, Segments, Size & Share
•Identify Outside Influences
•Analyze Distribution
•Analyze Market Coverage
•Analyze Product Pricing
•Evaluate Marketing Communications
•Analyze Positioning
Problems and Opportunities
•Determine Marketing Success Factors
•Identify Key Problems and Opportunities
Segment Priority
•Determine Segment Priority
•Establish Business Direction by Segment
•Establish Objectives by Segment
•List Assumptions and Restrictions
Strategies and Tactics
•Develop Strategy Options
•Select Strategies
•Develop Tactics
•Schedule and Budget Tactics
Marketing Plan
•Estimate Sales and Costs
•Prepare Trial P & L
Controls and Measurements
•Establish Controls and Measurements

Diagram 1
The Marketing Planning Process

Diagram 2


INFORMAL DECISION MAKING
FORMAL DECISION MAKING
DISCUSSION BETWEEN EXECUTIVES
• Reporting of problems with implementation
• Discussion of changes in marketplace environment
• Discussion of a new idea or project
R & D and Engineering Managers
Production Manager
Financial Officer
GENERAL MANAGER
Sales Manager
Marketing Manager
MONTHLY EXECUTIVE PLANNING MEETINGS
• Reporting of implementation progress by everyone
• Reporting of changes in marketplace by everyone
• Discussion of new strategies and project ideas
• Reassessment and updating of plan
FORMAL ANNUAL PLANNING REPORT
• Update written environmental analysis and sales and share forecasts
• Summarize strategies and projects adopted, in process and to be implemented
• Checking of environment-strategy fit
• Development and approval of budget and action plans
ANNUAL AUDIT OF DECISION MAKING

Source: Dr. Peter R. Dickson, Crane Professor of Strategic Marketing, Ohio State University

> point in time, you have to take a snapshot and put something on a piece of paper. But the process is ongoing.
>
> *—Marketing director, glass manufacturer*

The same executive suggested that it's all too easy to be distracted by the mechanics of the process. What matters is the quality of the thinking:

> We screen the tactical possibilities by going through a number of iterations—both thinking and crunching. Probably, there is a lot more emphasis these days on the thinking. There's certainly a lot of crunching going on, but that's almost routine, considering the techniques that we have now. I have a plaque up there on the wall above my computer that says, "Think first, crunch second." In the last ten years, in our company and in American industry as a whole, we've tended to spend less time thinking than we should have.

According to another executive, everyone should recognize that it's the *people* that are important, not the process:

> I think the process used to be a substitute for strategic thinking. Now that we're putting more emphasis on strategic issues, we're seeing a couple of things that can make a tremendous difference. First, individuals, as opposed to the process, can make a real contribution. Second, it's things like creativity and leadership—in the sense of initiative, insight, and courage to change people's way of thinking about a business—that make a great difference. A lot of the people who are coming out of schools with strong MBA programs are brilliant analysts—very skilled at taking a business apart, but not necessarily skilled at dealing with basic questions: How do you achieve insight? How do you trigger action? And most important, how do you change people's paradigm or view of the world?
>
> *—Director of marketing research services, food manufacturer*

Changes in Procedures for Preparing Plans

The procedures for preparing marketing plans have changed in recent years, as shown in Table 1. (Tables appear on pages 51-62). The primary changes are that the authors of the plan now receive more input from other people in the company (e.g., representatives from manufacturing, engineering, research and development, finance, sales), and the plan is more likely to be integrated with the company's or business unit's strategy.

One respondent described the evolution:

> Integration is terribly important because it gets people to buy in. It keeps people on the same page at the same time. It isn't a case where the marketing department prepares a marketing plan and then dumps it on everybody else and says, "OK, this is what you're going to do. Let me know at the end of the year, or at the end of the quarter, how well you've done." That kind of mentality may still exist in some businesses, but it can't exist in the business-strategy arena, because it doesn't work.
>
> It seems to me that planning today has to be an interactive process. It has to involve all the major disciplines of the business.. You have to get rid of the age-old argument between the manufacturing guy and the sales guy. The manufacturing guy used to say, "Why don't you sell what I can make the cheapest?" The sales guy would say, "Why don't you make what I can sell the easiest?" That's very counterproductive.
>
> You can only resolve that dispute when planning becomes a dynamic, ongoing process that everyone buys into. And now that people have begun to buy in, we really have a business plan—a team plan. It's not something that emerges out of some marketing mystique. It doesn't work that way.
>
> *—Marketing director, diversified manufacturer of industrial products*

Variations Among Industry Groups

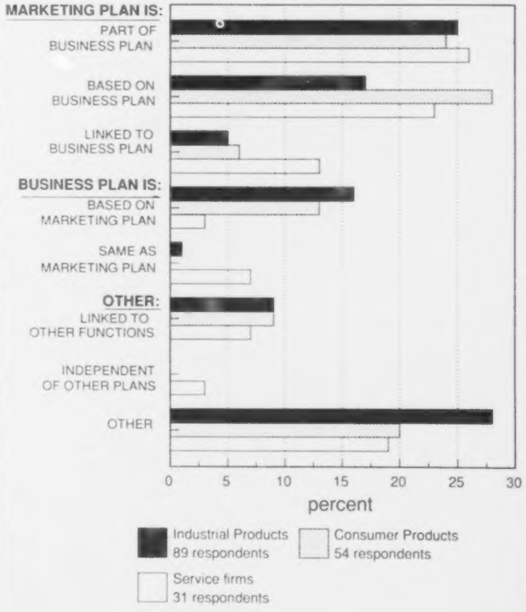
Table 1 shows a good deal of variation among the three industry groups—manufacturers of industrial products, manufacturers of consumer goods, and service companies—regarding changes in plan-preparation procedures. Notice, too, that several respondents reported that they didn't have formal marketing plans until fairly recently. (See the box on page 12.)

Linking the Marketing Plan with Other Plans

Chart 1 confirms that the marketing plan *depends* on the business plan. That is, it's part of the business plan,

Chart 1: Links with Other Plans

Q: How does your marketing plan connect with other plans that your unit depends on?



We Didn't Have a Marketing Plan Five Years Ago

About 10 percent of the respondents said their companies or business units didn't have formal marketing plans five years ago. Here is how some of them described the situation.

Five years ago, we had no marketing plans. Right now, we are neophytes in thorough marketing planning. We have a group responsible for 10 or 20 product lines. We have a "vision" of our marketing planning elements, but it will take several years to provide a useful marketing plan that can be integrated and managed as a real planning tool.

—Marketing manager, component manufacturing division of an automobile company

Five years ago, marketing plans were nearly non-existent. Each year, plans have improved in quality. As of last year, the plans have developed to a point where they guide the entire corporation. We have formalized the process and have given more clarity as to who is responsible individually, departmentally, and as part of a matrix organization.

—Vice president, marketing, telephone company

Five years ago, we had sales plans, not marketing plans; marketing/sales was not considered a strategic activity.

—Vice president, sales, steel company

Five years ago, there was no organized attempt to prepare marketing plans. The most that was attempted was a spending budget. Each year during the past five, the planning process has become more elaborate and detailed.

—Director of marketing, financial services company

The plan five years ago could be described as no more than a short- and long-term sales forecast. Today, we formally conduct a situation audit, both internal and external; an industry trends analysis, both technological and business; and a complete, formal plan that includes new-product, acquisition, penetration, and alternative plans.

—Vice president, marketing, manufacturer of electronic components

Five years ago, our company had no defined strategic plan for our division. Each year a meeting was held to seize upon immediate market opportunities to increase sales, but little thought was given to long-term profitability. One year ago, we completed an extensive process to create a strategic plan to define our customer target and our long-term sales and profitability objectives. This year we will develop a thorough operational plan for 1990 to include specific directions for the entire year's activities for each product as well as our development of manpower.

—Senior vice president, ordinary marketing, life insurance company

The concept of establishing a marketing plan is a major change in our company. Two years ago, we did not have a formal plan. We now focus our efforts on our core markets, and develop a plan for each one. This provides the direction to field sales, product development, and manufacturing. The market managers are responsible for developing and implementing the plan.

—Director of marketing, a paper company

Five years ago, we didn't prepare marketing plans, only strategic (business) plans. We've now been preparing marketing plans for about two and a half years. Initially, each business unit prepared a marketing plan. However, in the last year, we've altered the process somewhat such that plans are prepared for specific products or programs, but not necessarily for each business unit. In the future, we may combine our strategic and marketing planning processes into one process. The result would be an overall business plan with strategic objectives and the marketing section comprising the tactics.

—Assistant vice president, financial services company

derived from it, or in some way integrated with it. However, in a minority of the cases, the business plan depends on the marketing plan. The marketing plan is prepared first, and the business plan is built on that. There's clearly a strong connection between the two; marketing plans are not prepared in isolation. (See box on page 13.)

It's useful to distinguish between various types of business plans. The one that gives overall direction to the company is often called the strategic plan. It may span anywhere from three to twenty years. There may also be a shorter-term plan covering one to five years, sometimes called an operating plan, since it covers all of the unit's year-to-year operations—manufacturing, research and development, engineering, marketing, finance, and so on. The marketing plan usually has a span of one year.

The strategic plan sometimes specifies decisions about what kinds of products to make and what amount of quality should be built into these products. Even if such decisions are not described explicitly in the plan, they may be implicit in the company's stated strategy For example, if part of the strategy is to add a new line of products and the company will have to build new manufacturing facilities to produce those products, this decision will eventually affect the shorter-term marketing plan.

The point is that many of the decisions made by top management may not be considered marketing decisions, but they will definitely shape the organization's

Integrating the Marketing Plan With Other Plans

Executives from several different types of companies:

A diversified manufacturing company:

Marketing plans are done annually and are tactical in focus. They reference and provide implementation of long-range strategies. They are in effect the "first year" of the annual five-year plan process.

A bank:

The marketing plan is now freely integrated into the division plan and the company plan. However, within the marketing plan are included individual plans for the various marketing disciplines—advertising, merchandising, service development, research and analysis, and telemarketing. These become, in reality, implementation plans for carrying out the overall business or strategic plan.

A life-insurance company:

Our marketing plans are formally documented as part of the overall business plan by each business unit. In that context, they incorporate less detail than one might want in order to take action. At the middle-management levels, marketing plans vary widely with some units developing very well outlined plans of purpose and actions down to specific advertising programs, creative, and media schedules, plus expected results in numbers. These most often also tie very closely to specific products, sales plans, and geographic conditions. Others are more superficial, and, in many cases, stop with objectives and big task assignments, with no further identification of how a marketing effort will be carried out.

A food company:

Marketing plans are for individual brands/groups of brands. These are then consolidated to form the operating plan for the business unit (e.g., the grocery products group or the refrigerated products group). The operating plan then links to the unit's strategic plan, which typically covers a three-to-five-year period.

An equipment manufacturer:

There is no marketing function within the company. All marketing plans are generated within the SBU as a part of a business plan.

A food company:

The marketing plan is the core of all other plans. Capital expenditures, human needs, etc. all respond to marketing's plan. Took a while to get there, and we had blood all over the place, but we are essentially and finally marketing-driven. Our lip-service phase is over, and we really mean what we say.

future marketing plans. And of course, the more the top managers know about marketing the company's products or services, the higher the quality of the future marketing effort. In other words, the company's success may depend more on the marketing talents of managers at the highest level than on the talents of the middle managers who have immediate responsibility for marketing.

The following comments, from marketing executives in three large corporations, illustrate how the marketing plan may relate to the general business plan.

The focal point for operating people:

Our plan is more than just a marketing plan. We've integrated the marketing plan into the basic strategic plan for the corporation. So we can't separate the two. They're really one. And in this plan we have all the critical thinking from the key operating people as to where we are and what we ought to do. This is the focal point for all the operating people.

—Senior vice president, marketing,
sanitation services company

Blurring the lines between plans:

The level of sophistication in planning just continues to increase as we get more and more business-school graduates. Planning is not so much seat-of-the-pants any more. It's more of a continuous process of analyzing the competition and analyzing the market so we can determine what the proper tactical moves are. I don't think there's anything fancy about it. I just think it's blocking and tackling.

We continue to grind it out and focus on what we do best. We get out in the marketplace and do it. As far as this division is concerned, and as far as the entire company is concerned, marketing planning and business planning are blurred. Really, we focus so much on business planning that market planning is just one of the elements of that.

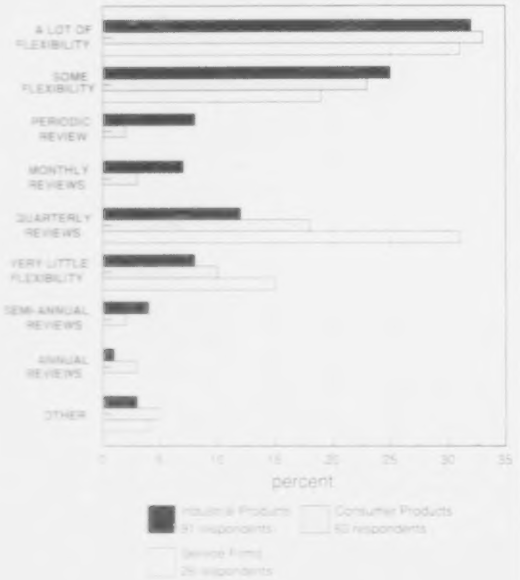
—Manager of business planning, motor manufacturer

Closer linkages:

There's now a closer linkage between our business planning, our strategic planning, and our marketing planning. When I look back to 10 years ago, it's absolutely amazing how independent those were. In the first place, we didn't have a formal strategic planning process then. The managers of each business would sit in meetings and do all the planning without direction from the corporation. But in 1982, we introduced a formalized strategic planning process to be used by all operating units, and that allows the corporation to view its business portfolio in a way that makes sense. But the marketing planning was almost independent. If there was business planning going on, that was fine. But as a marketing manager, I sat down and looked at my marketing plan. Today, I look at the

Chart 2: Opportunities for Altering Strategies or Goals

Q: What allowance is there for altering strategies or goals, once the plan is approved?



business plan. I listen to top men talking about their business, and then I implement the marketing program, taking my cue from the business plan.

—Manager of marketing planning, manufacturer of industrial products

Opportunities for Revision

It's generally understood that the plan is subject to change, and for very good reasons. As competition has intensified, markets have become more dynamic, and marketing plans have to be modified accordingly.

The revision process is informal at first. Members of the marketing team discuss the program almost daily, and changes in the plan can be made whenever it seems necessary. To make sure that the evolving ideas do coalesce into agreement, many marketing teams have periodic reviews—monthly or quarterly—to decide exactly how the plan should be modified. This can be described as a formal ratification of informal discussion.

Over and over again, executives said that their marketing plans are "not cast in concrete." Chart 2 summarizes the answers to the question, "What allowance, if any, is there for altering strategies or goals, once the marketing plan is approved?" The chart shows that the marketing team has many opportunities to make revisions during the life of the plan.

The main reason for changing the plan is to respond to competitive threats or changing customer needs, as these executives' comments demonstrate:

Unlimited opportunities:

> The opportunities for change are unlimited. Our marketing plans are never cast in stone. They are always flexible. We recognize that the market can change, and our competitors can change their strategies and tactics, and we can simply get smarter.

—Vice president, planning & business planning, manufacturer of electronic controls

A market-driven plan:

> The market environment and customers drive the plan. If market or customer situations change significantly, the plan is altered.

—Vice president, marketing & sales, manufacturer of steel tubing

Flexibility to respond:

> We have considerable leeway for change. We consider marketing to be an ever-changing discipline, and, whenever new ideas surface, or changes in the competitive or regulatory environment occur, we must be flexible enough to respond.

—Vice president, director of marketing, special markets, commercial bank

As these executives attest, preparing a marketing plan is much more of a recirculation process than a linear flow.

How Top Management Guides Marketing Planning

If war is too important to be left to the generals, as Georges Clemenceau said, marketing may have become too important to be left to marketing specialists. Company after company has discovered—or perhaps rediscovered—the necessity of getting closer to the customer; CEOs have stepped in to see that customers were getting what they wanted.

It's not that the status of the marketing executive has been diminished. What seems to be happening is that the responsibility for marketing decision-making has been elevated to the highest level of the company or business unit, and the senior marketing executive has assumed the role of a key advisor and source of marketing ideas and information.

How does this square with the notion that responsibility is being pushed down through the ranks of the corporation? In fact, the trend seems to be to make business units entirely responsible for their own performance. But within the business unit, the responsibility for marketing decisions seems to be rising to the top.

One marketing executive described the changes:

> We used to operate in a fragmented way, with marketing people over here, engineering people over there, and manufacturing people beyond. There was some interconnection, as needed, but it was still fragmented.
>
> Marketing is becoming more of a focus now, more of a broad-based business perception. We're educating our people, telling them they need to be business people, not just marketeers. And so their job is to really understand their markets, understand the dynamics of changing customer requirements and behavior. And with that base of knowledge, the marketer's job is to develop the recommendations to feed the general management. We will be doing more information gathering. That's becoming a more important part of the business.
>
> At the same time, the general manager is becoming more of a business person too. Instead of orchestrating the organization functions—manufacturing, the laboratory, engineering, marketing—he is developing more of a marketing focus. Everybody is talking about customer requirements, customer satisfaction, quality. We actually believe in those things. So what we have is a marketing team, not a marketing function.
>
> I think it's appropriate that this is happening. Our resources are limited—or maybe the opportunities are so plentiful—that we have to prioritize. Things are much more expensive to bring to the marketplace today, and so we've become much more targeted, much more focused, and we recognize that management needs to call the shots. I think the general manager has more responsibility for making the right marketing decisions than ever before.
>
> *—Manager of marketing planning, industrial product manufacturer*

Preliminary Directives from Management

As shown in Chart 3, senior managers are much more involved in marketing decisions than they used to be. In

Chart 3: Top Management's Role in Shaping Objectives: 1980 vs. 1989

Q: Are broad-brush strategic objectives for the marketing of products or services usually determined before the marketing plan is prepared by direction from senior management? In a formal business or strategic planning document?

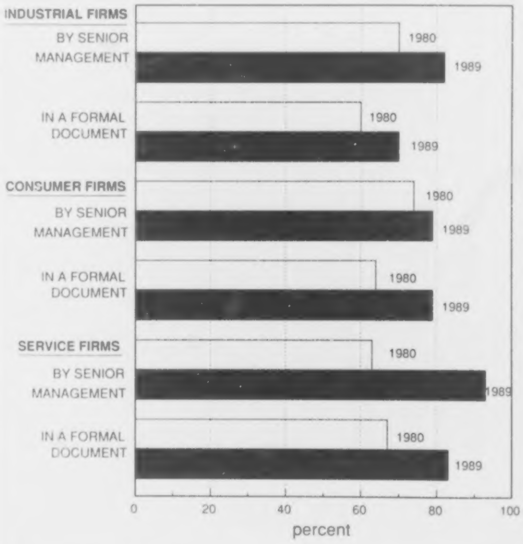


Chart 4: Responsibility for Preparing Plans

Q: Who—by title—assembles your marketing plan? (Note: only includes title of most junior person.)

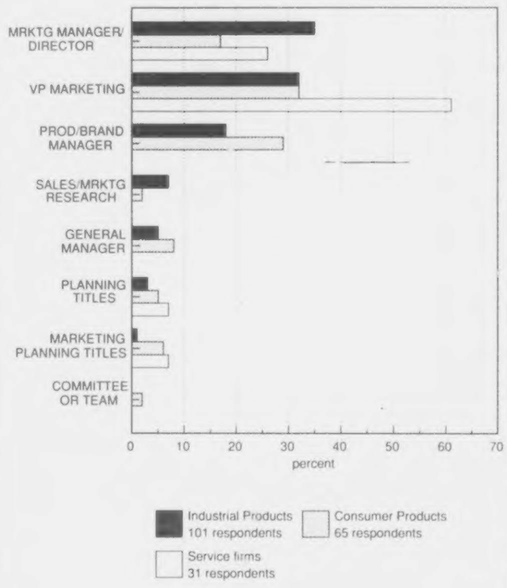
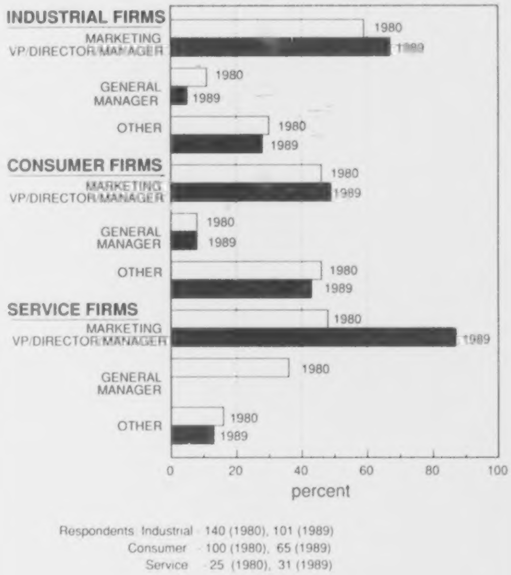


Chart 5: Responsibility for Preparing Plans: 1980 vs. 1989

Q: Who has primary responsibility for creating your marketing plan?



Respondents: Industrial - 140 (1980), 101 (1989)
Consumer - 100 (1980), 65 (1989)
Service - 25 (1980), 31 (1989)

those cases where top management issues preliminary directives, respondents were asked to specify what topics were covered in the directives. The answers appear in Table 2 (see page 52). Notice that the guidelines primarily have to do with financial matters—profit and sales goals, and budgets.

Of course, top management is often under a lot of external pressure to perform well financially. What the CEO tells security analysts today may have a substantial effect on the company's marketing plans for the next few years.

As one executive remarked:

> Our corporate plan on any given year is set primarily as a financial-control exercise. This is what we achieved in sales and profit last year. We have a five-year growth plan essentially based on return on equity. We've committed to security analysts and to shareholders x percent of earnings. That translates into a sales increase of x amount, based on what we think the cost of goods will be next year. That's the sales number we have to hit, and then we'll have to write a plan to fit it.
>
> In the ideal world, my marketing plan would be based on what I thought I would achieve if I didn't do anything differently from my running rate right now. If I had this much more to spend on the marketing and sales promotion, and this much more to spend on advertising, I could produce this much more in sales.
>
> In reality, our sales number and our profit number are set by security analysts, and we work according to that number. The marketing planning that goes on I wouldn't say is an afterthought, but it's very heavily driven by a financial commitment that's been made one year, two years, three years, five years out by the chairman of the corporation.
>
> *—A marketing executive with*
> *a very large food company*

Although top management seems to be taking firmer control of marketing planning, this does not necessarily discourage creativity. Marketing ideas still seem to rise from the middle and lower levels of the organization as well as from the senior marketing executive. This point, among others, is illustrated in "Crazy Ideas vs. Good Ideas Floating to the Top" and "New Products from Jewels of Understanding" (see pages 17 and 18).

Who Prepares and Who Approves the Plan?

Preparing a marketing plan is almost invariably a team effort, but the primary responsibility usually falls on one person. Chart 4 indicates that person is likely to have the title of marketing manager, marketing director, or vice president of marketing. That information is compressed in Chart 5 and compared with findings from our

Crazy Ideas vs. Good Ideas Floating To the Top

The planning process has to start at the top. If the people at the top don't believe in the planning process, it will never get done. Fortunately, we've always been blessed with people at the top—I mean the very top, including the president—who believe strongly in it.

I think the operating people, especially at the branch level and perhaps even at the regional level, tend to believe that, if it isn't broken, why fix it? and tomorrow will always be the same as today. And the planning process is very annoying for a lot of these people, and very disruptive. There's a lot of controversy involved.

But I think that's all good and necessary, because they often think of the people at the top as people who have nothing better to do than sit around and think up crazy ideas. The real role that the line operators have is to challenge and question and ask why. If the people who are moving the planning process along can't defend their position or give a good rationale, then probably their ideas aren't worth listening to.

So I think that any planning process has to have a lot of tension and a lot controversy involved. It's through the controversy and the tension and the discussion that you really get the good ideas that float up to the top. So we don't discourage that. We don't try to get everybody in the organization thinking the same way.

The line operators are there for one reason, and that's to make the business grow profitably. That's their primary focus. We wouldn't want a lot of visionaries and dreamers down in the line operations. But we do involve the line operators at every step along the way. I think it's through that process that everyone grows.

—Senior vice president, marketing,
a large service company

1980 survey. Notice the large change in service companies. It's now far more likely that their marketing plans will be prepared by a manager with a marketing title, presumably because many service companies didn't have marketing managers until fairly recently. Notice that service companies have become much more marketing-oriented than before. "The Cookie Cutter Plan" (page 19) shows what can happen if the responsibility is left to a relatively inexperienced person.

Chart 6 shows who's responsible for approving the plan. In most cases, it's someone at the highest level of the company or the division.

A comparison between the 1980 survey and the present survey is shown in Chart 7. It shows that there has

Chart 6: Responsibility for Approving Plans

Q: Who must finally approve marketing plans? (Note: only most senior person included here.)

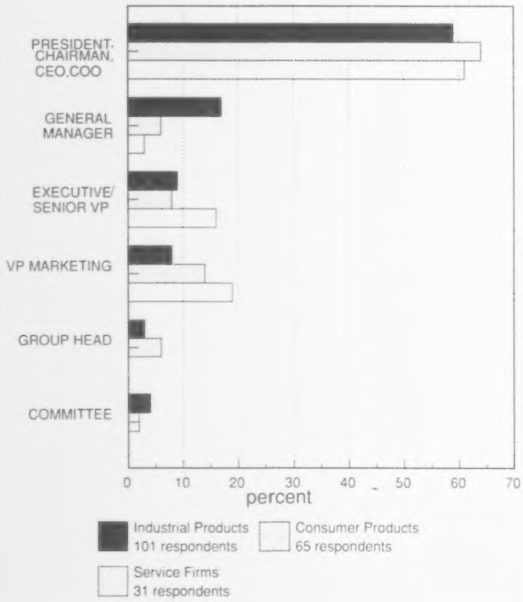
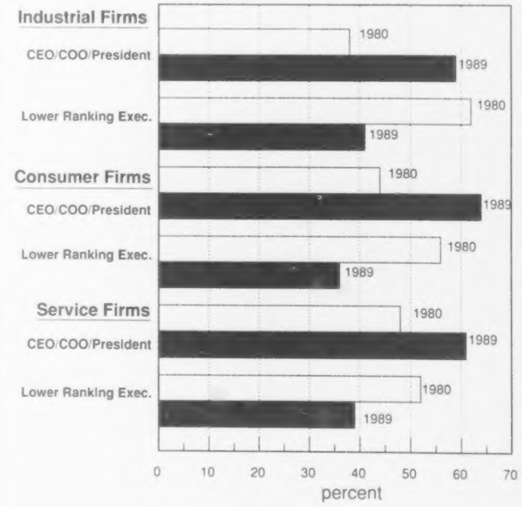


Chart 7: Responsibility for Approving Plans: 1980 vs. 1989

Q: Who must finally approve marketing plans? (Note: write in title of executive or committee.)



Respondents: Industrial - 137 (1980), 101 (1989)
Consumer - 100 (1980), 65 (1989)
Services - 25 (1980), 31 (1989)

New Products From Jewels of Understanding

Major pricing decisions, or a decision to roll or not roll a new product, for example, would be made by the president of the company. The reasons for that are obvious, because you're talking about a commitment of, in our case, sometimes $60 million.

That decision is based on very solid information. We know an incredible amount about our business. We know a lot about what's happening at the end of the distribution chain because we have a lot of scanner data on how fast our products turn, who's using them, and all of that detail. The information flow is rich. For example, in determining whether or not to extend a test market, we would have a scanner analysis of trial and repeat, as well as a full-fledged cannibalization analysis. After test marketing, we'll have lots of estimates of what the economics of the proposition will be—what the efficiencies of our manufacturing lines will be, what the capital will be, what the pay-out will be. All that information is simultaneously evaluated at that point of decision.

Typically, the way that happens is that kind of decision would be expressed in a document that would be presented verbally, usually by me or one of my people, at a senior staff meeting. The meeting would be on the agenda weeks in advance, so the document can be reviewed carefully. Then the decision would be made at that meeting or very shortly thereafter. It's usually made at that meeting because the review has already occurred.

This document is not just a marketing plan. It's a full business plan. All the key functions would be represented, including technology, financial planning, and manufacturing—all the key pieces including sales. I don't think it's necessarily "consensus managing," but definitely we want all the functions participating as an opportunity to raise issues. In fact, in many cases we don't get consensus. Half of the people go away from those meetings not happy with the decision. But once the decision's made, they'll go execute it with us with as great a degree of excellence as they can.

Now, I should say that, although we have an on-line information system that allows us to look at our performance and our competitors' performance on a market-by-market basis, on an area basis, on a category basis from almost any time frame, this bare-bones information does not lead us to a strategy. Clearly, our strategies grow up from the guts of the organization. New-product strategy, for example, has for many years—for five years at least—not come top-down in this organization at all. It's definitely built up from the organization.

That's because on-line sales data or data from a scanner report only lets you build a strategy to some degree. That's still not the key information you need to build a strategy. I think the key information really comes from understanding of the consumer—at least an important piece of it. And that's why I think the strategy development happens more from the lower levels of the organization. They have closer contact with the consumer data and our marketing research department, and our new products group—those are the guys who are constantly pulling that together.

I've got two pretty senior managers working with the sole responsibility of developing consumer-based new-product strategy. That's all they do. And they've been very successful at taking strategic consumer information—product/performance information—and wringing it into strategies that actually lead to new-product projects. That's the way this organization operates. Those two guys wrote my new-product operating plan. They wrote it. They started from scratch.

They said, "Here are the key, key, key components—jewels of understanding of the consumer—against which everything ought to operate. Now let's take that and build it into a new-product strategy. And let's figure out what new-product projects we ought to execute that against." That's the core. That's the essence of the projects I'm executing against right now.

That's what I take to senior management. I say, "Here's what I think our strategy ought to be. Here's how much money I think I need to go and execute against it. And here's how much volume I'm going to sign up for next year. OK?"

—Vice president of new business for a large packaged-goods company

been a dramatic rise in the level of responsibility for approving the marketing plan.

Although the top manager's interest and involvement in the marketing plan have increased, the plan remains a pliable document, a guide to action rather than a set of marching orders. This is evident in Chart 8.

Advantages of Having Top Management Involved

As noted, there has been a trend toward more teamwork, and a trend toward having the top managers lead that team. In the course of the approval process, plans may be informally reviewed by senior executives at the corporate or group levels, or in some cases by a marketing or planning head at these levels. Such checks in advance no doubt minimize the likelihood of a plan's being rejected later during the formal approval process.

The charts in this section confirm that more and more top managers are playing a part in marketing planning. They control the planning process in part by specifying profit and sales objectives and budgets. Marketing plans are still prepared by a management team headed by executives with marketing titles, such as vice president, director, or manager. But in most cases, final approval is in the hands of executives at the top—CEOs, COOs, the chairman, or the president.

The Cookie-Cutter Plan

One of the main shortcomings of our plans is that they're often naive. They're cookie-cutter plans.

When we have one of our guys sit down and write a marketing plan, he typically is an associate brand manager with one year, maybe 18 months of experience in marketing, after an MBA program. He writes the plan for one of our key brands, a $400-million business. And then the rest of us get a shot at adjusting it. We could ultimately throw it away and tell him to go start again.

But that's not what happens. This guy's pretty insecure—he hasn't got a lot of years of experience—so he's going to put together essentially the same marketing plan that's been done on this brand for 20 years. There will be different names in it. The copy is going to be different copy. It's going to have a different promotion program, but it's all going to be the same stuff. He's going to continue what was done last year.

So I just think the system constrains us. We produce the plan with a cookie cutter. I'm not saying our people aren't smart; we have very good people here. But I think the system does constrain them.

I'd like to see a little more innovation. I'd like to start from a different base. We need a paradigm shift in the way we build a market. I'm trying to break a little bit of that mold. But it's very hard to totally throw it away.

—A marketing executive of a large food company

There are some big advantages in having the top people involved. One is that the organization has the benefit of greater experience. Another is that, because communication is now much more direct, decisions can be made much faster. Two executives comment on these points:

Access to senior management:

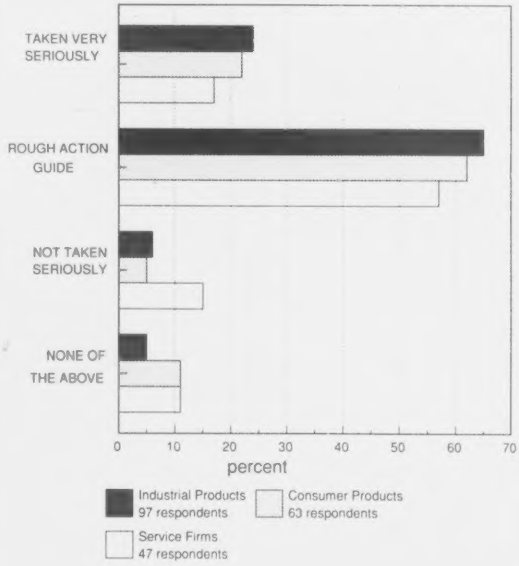
We're very fortunate in being able to have access to senior management to discuss business issues. So there aren't any surprises in the planning process. We have a short chain of command. I have been in more than one situation where my boss (the division president) and I laid out an urgent issue with a recommendation on how to address it, and we received approval from the chairman the same day.

There's a strong sense of urgency on the part of senior management to bring problems to their attention. In fact, we have a saying: "If you've got a problem and you don't tell senior management about it, you've got a real problem."

—Vice president, marketing, division of food manufacturer

Chart 8: Status of Marketing Plans

Q: Which of these statements best describes the status of marketing plans in your company?



A higher level of experience:

Four or five years ago, a great deal of our activity was designed to get organized for when you did get some senior management attention. We had more levels than we needed, more process than we needed, maybe more structure than we needed. In the last few years, our senior managers have been taking that apart. At the same time, the company has sold off some peripheral businesses, and the senior people have a lot more time to spend with the core businesses, and they can behave in a less formal fashion. Instead of scheduling meetings far in advance, they initiate contact with the operating divisions on an ad hoc basis.

Senior management has also placed a tremendous emphasis on speed. They feel this is a source of competitive advantage, and they have really been very aggressively pushing it. We've also eliminated two or three layers between the chairman and maybe the most junior marketing person, which shortens the review process.

The key operating divisions now have the benefit of a higher level of experience. As we've eliminated layers, we've said, "We want the senior people, the most experienced, savvy, capable people running their businesses—but not as overseers. We want them actually working in the business.

We now have more senior people acting as general managers. They have true profit-and-loss responsibility, and they control every step of the process of getting to market.

—Director, marketing research services, food manufacturer

What Are We Really Trying To Accomplish?

Our planning process begins with a half-day meeting to discuss strategic issues. The meeting includes just three people—the president of the division (me), the chairman of the board, and the president of the corporation. I have about three sheets of paper, maybe four, that talk about these things: What are the issues? What are the market dynamics, as I see them today and what I see in the next three years? What should we be spending in terms of protecting our market share? Where is the marketing going, from a demographic standpoint?

This is a high-level strategic discussion. We just sit and talk about my business—not a lot of slides, not a lot of pictures, more informal than formal—to get a frame around what I think the strategic issues in the division are. I want to get agreement from them, the chairman and the president, that, yes, those are the issues they're concerned about as well, and that we need to develop plans around those issues.

What we agree to is that there are five or six strategic imperatives. In each case, we agree that a particular objective has to be successfully achieved or the division will not succeed in its business efforts, and we have a three-year horizon. The objectives might have to do with share, or new-product technologies, or management development, or organizational issues that need to be addressed.

Then I draw up a two-page response. It says, here's what we talked about, here's what we agreed to do. Then I go back to the division with this document in my hand. I say, "OK, here's what we're headed for, here's where we got strategic agreement from the corporation." Then we start developing a plan around that direction.

There isn't an awful lot of planning that goes into that first meeting. I mean, we get bunches of numbers, and we look at the most strategic spots, such as share, such as technology. But it's really an opportunity for one time during the year for the three of us to sit down and just talk. That's much better than having a bunch of people in the room, presenting and showing what they want us to see. The next step is to come back to the division and put together a team to prepare a plan based on the strategic plan. This book, which we call a marketing strategic plan, deals with marketing and the whole focus on what we're going to do, and what we're going to do different.

The preparation is typically done by the marketing department, supervised by the manager or director of marketing services and planning. He sort of heads up the committee that puts the book together. Then, once the book is done, we have a meeting at corporate headquarters. We go over very specific areas, with a 35- to 50-page report. That's basically the way it ends up. That seems to be a basic Marketing 101 kind of process, but it's amazing how much disagreement there can be. You have one idea of what your job is, and other people in the organization may have a different idea. I think the key is to get agreement on the mission: what are we really trying to accomplish?

—President of a division of a manufacturer of consumer products

The Scope of the Marketing Plan

The marketing concept—the idea that the customer defines and drives the business enterprise—surfaced in the 1950s. It was articulated not only by Peter Drucker but also by many corporate executives. The most influential statement of the marketing concept may be "Marketing Myopia" by Professor Theodore Levitt, which concluded,

> In short, the organization must learn to think of itself not as producing goods and services but as *buying customers*, as doing the things that will make people *want* to do business with it. And the chief executive himself has the inescapable responsibility for creating this environment, this viewpoint, this attitude, this aspiration. He himself must set the company's style, its direction, and its goals. This means he has to know precisely where he himself wants to go, and to make sure the whole organization is enthusiastically aware of what that is. This is the first requisite of leadership, for *unless he knows where he is going, any road will take him there.*[2]

The marketing concept was widely endorsed in the 1960s. But in the following decade, it seemed to be partially eclipsed, when managers became interested in strategic planning. Their efforts were directed toward assessing the company's ability to serve particular markets, finding and sustaining a competitive advantage in those markets, and developing the most profitable mix of products. The object of the game was to manage the corporation's businesses as if they were a portfolio of negotiable instruments. Although the marketing concept and the strategic-planning concept aren't necessarily in conflict, it has been argued that, by concentrating on strategic planning, managers tended to shift their attention from creating customers to trying to dominate particular markets, segments, or niches. As one observer said, "What was being emphasized in these strategic planning frameworks may not be as significant as what was left out—the customer." [3]

Perhaps inevitably, managers were tempted to seek short-run financial gains instead of investing in new products and technology that would allow them to compete successfully with strong, new contenders based in Asia and Europe. In another quarter, the marketing concept was attacked by critics who thought that companies had paid too much attention to marketing and too little to innovation. Robert H. Hayes and William J. Abernathy made this point in their well-known essay, "Managing Our Way to Economic Decline," which concluded:

> The key to long-term success—even survival—in business is what it has always been: to invest, to innovate, to lead, to create value where none existed before. Such determination, such striving to excel requires leaders—not just controllers, market analysts, and portfolio managers. In our preoccupation with the braking systems and exterior trim, we may have neglected the drive trains of our corporations.[4]

In any event, the marketing concept seems to have reappeared (see "Rediscovering the Marketing Concept," page 22). But it now seems appropriate to recognize that, in the process of creating a satisfied customer, innovation is at least as important as marketing. It also seems appropriate to refer to this idea as the customer concept rather than the marketing concept.

Changes in the Contents of Marketing Plans

Where does the customer fit in the planning process? Table 3 (page 52) shows how the content of marketing plans has changed over the last five years. Notice that the most often mentioned change is that plans are now much more likely to be oriented toward the customer.

Some executives describe this shift in emphasis:

> Our marketing group has changed from a product focus to a market focus. This allows us to focus on customer needs.
>
> —*Manager, business planning, manufacturer of electrical equipment*

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[2] Theodore Levitt, "Marketing Myopia," *Harvard Business Review*, July-August, 1960, p.56.

[3] Frederick E. Webster, Jr., *Rediscovering the Marketing Concept*, (Cambridge, MA: The Marketing Science Institute, Report No. 88-100, p. 9.)

[4] Robert H. Hayes and William J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review*, July-Aug., 1980, p. 77.

Rediscovering the Marketing Concept

Many top management spokespersons have stated their belief that the rediscovery of marketing may provide an important boost to competitiveness in America. The marketing concept, emphasizing the importance of focusing on the satisfaction of customer needs as the key to long-term profitability, is now expressed in such new phrases as "close to the customer," but the basic idea is more than 30 years old.

Once again we see firms recommiting resources to marketing, refocusing on their traditional businesses, and rebuilding long-term relationships with their customers. Customer service programs are receiving increased attention, and market-based measures of performance are becoming part of management evaluation systems. Focus on the customer is once again taking on strategic importance as the fundamental requirement for company survival and competitive effectiveness. With proper attention to such basic issues as top management support and corporate culture, the integration of marketing into the planning process, the development of highly competent marketing management personnel, market-based evaluation and reward systems, and making sure the total organization understands and accepts the basic commitment to customer satisfaction, we can hope that the marketing concept will at last be firmly entrenched in American business enterprise.

— Frederick E. Webster, Jr.
E. B. Osborn Professor of Marketing
Amos Tuck School, Dartmouth College

(Cambridge, MA: Marketing Science Institute, *Rediscovering the Marketing Concept*, Report No. 88-100, 1988, p. 18.)

> We have become much more focused on our customer and look at smaller and better defined market segments. We include more consumer research and try to start with our customer rather than our own products and services.
>
> *—Senior vice president, health insurer*

> We have more emphasis on the strategic situation and consumer needs defined for the target market.
>
> *—Division vice president, marketing research, greeting card company*

More Competitive Analysis

The chart also indicates a heightened interest in competitive analysis. No doubt this is due to the general increase in competitive pressure. The evident interest in competitive analysis also confirms the findings in an earlier Conference Board report.[5]

In one of the interviews that followed the present survey, an executive at a manufacturer of air-conditioning and heating components had this to say about competitive analysis:

> We now include a much more in-depth review of our competitors. We review their major accounts, their shares by application, their pricing, changes in their share and account penetration and product offerings on a year-to-year basis.
>
> We don't wait until the end of the year to do that, but this is the time we make sure we have the information. We go into detail about where their products are being manufactured, how much product has been moved from the factories, what their labor rate is in those factories, what their costs are.
>
> We regularly review all the major competitors' products in comparison with ours. We put them through the same quality audits that we use for our products in our quality laboratory. We do a thorough costing review. And we do that just to make sure they haven't made an internal design or casting change.

The president of a division of a manufacturer of eye-care products pointed out that collecting competitive information is a continuous process:

> If something that a competitor is doing is really unique and potentially going to change the market, then it's "Battle stations, everybody!" We should have learned about it before it happens.
>
> We have relationships with people throughout the marketplace, and we try to get intelligence in terms of what's happening, what deals are getting off, or what programs are getting off. We keep pretty close track of what our competitors are doing. And we really work hard at that.
>
> One of our big competitors launched a major new product last year. We knew four years ago that they were going to do it. We knew what materials they were going to use, we knew where they were getting the molds from, we knew what their manufacturing process was, we had an idea what their cost was, and we had a pretty good feeling of how they were going to market it. And they pretty much followed exactly what we expected them to do.
>
> Whenever someone is about to make a major move—either in terms of pricing or in terms of strategic direction—the phone calls come in. If it sounds serious, we put an action team or a task force together. We ask, what should we do next? how does this affect us? If it's a big issue, we keep that committee alive to come back and give us a report on what the response is. As these things come up, we deal with them.

More Rationale, More Realistic Analysis

Another important point is that the plans are better reasoned and more realistic. A few examples:

> Greater emphasis on *why* and *how*, not only *what*.
>
> *—Senior vice president, director of marketing, spirits and wine producer*

> Better situation analysis completed now: understanding company/brand strengths and weaknesses; deeper analysis of competitors; better utilization of information.

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[5] Howard Sutton, *Competitive Intelligence* (New York: The Conference Board, Report 913, 1988).

> More strategically based: actions planned more strategic; content not as rote/predictable.
>
> —*Vice president and director of marketing information, manufacturer of food products*

> All plans now contain a Key Learning section, to apply the learning on the brand over time and develop the implication this learning might have on the brand's future.
>
> —*Senior vice president, marketing and advertising, manufacturer of health and beauty aids*

More Specific Objectives and Measurements

These are among the comments about increased specificity:

> Plans were previously *very* "loose." They provided only a general sense of direction. Now they are very detailed and tactical, with all aspects of marketing expenditures and actions to be taken clearly articulated. Also, plans previously contained no *quantitative goals*; now they do.
>
> —*Category director, brewer*

> Main content changes are in setting specific goals, strategies, and action items, and having measurement systems for progress.
>
> —*Vice president, marketing, manufacturer of automobile replacement parts*

The Global Question

With all the talk about the necessity of thinking in global terms, it may be surprising that so few respondents said that their marketing plans contain more emphasis on global issues. Why so little interest?

For one thing, most of the respondents who mentioned the global issue are employed in the corporate marketing or planning departments of large U.S. companies, including an automobile company, a diversified manufacturer, a manufacturer of industrial-automation equipment, and a publisher of educational materials.

Also, the survey participants included marketing executives employed at the U.S. headquarters of several very prominent manufacturing companies based in Japan and Europe. Although these companies are definitely players in the global arena, none of the respondents mentioned the global issue.

What this suggests is that, as far as marketing planning is concerned, the global issue is important mainly to those (increasingly rare) companies that have a strong, centralized marketing operation at corporate headquarters.[6]

But in companies where the marketing operations are decentralized, the global issue may not be very relevant, because the companies' markets are likely to be geographically segmented. To modify the current cliché, it is not clear whether marketing people are thinking globally, but it is clear that they are acting locally.

Topics Covered in the Plan

Respondents were asked to go over a checklist of 20 topics that are often included in marketing plans. They indicated which topics were discussed with respect to objectives, strategies and tactics, and action programs. Table 4 (page 53) summarizes the responses that concerned objectives. The leading issues are market share and profit margins.

Table 5 (page 54) compares the answers supplied in the present survey and the earlier one. The table focuses on those cases where there were significant differences.

Since the issue of customer satisfaction has received an enormous amount of attention in the business press in the last few years, it's not surprising that manufacturers, in both the industrial and the consumer sectors, report a significant increase in emphasis on this issue in their marketing plans. What may be surprising is the decrease, in the same sectors, on the field sales effort. Perhaps this reflects an increase in more direct forms of communication, such as telemarketing and computer-to-computer ordering.

A couple of other surprises may be the diminished interest in marketing research in the industrial sector, and the diminished interest in advertising in both the industrial and consumer sectors.

Table 6 (page 55) shows what kinds of strategies and tactics are important. Regardless of the type of business, the key strategies or tactics seem to be related to market share, pricing, profit margins, new-product development, and the selling effort. Beyond those key concerns, there's a good deal of variation depending on the type of business. For example, manufacturers of consumer goods and service companies pay much more attention to advertising themes than industrial companies do. The variations aren't surprising, except perhaps that product quality seems to be more of a marketing issue for manufacturers of consumer goods than for manufacturers of industrial goods.

Table 7 (page 56) compares the answers from the 1980 and 1989 surveys. What is abundantly evident here is that service companies are taking marketing much more seriously than before.

Respondents were also asked to indicate which of the topics are represented by action programs. Table 8 (page 57) shows that the most common action programs have to do with the sales effort, holding or improving market share, and developing new products or services.

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[6] See David S. Hopkins and Earl L. Bailey, *Organizing Corporate Marketing* (New York: The Conference Board, Report 845, 1984).

Keep It Short

For existing products and markets, the outline of our marketing plan is only one page long, and the plans are generally not permitted to be over 15 pages long. It's always been my contention that, in a year's time, a group of intelligent, high-powered people in a business unit probably can't hope to accomplish more than five or six major things. And they have to be quite focused.

There are obviously a lot of supporting activities that go on to accomplish those goals. But when a new market manager writes a 30-, 40-, or 50-page marketing plan for me, I would weigh it maybe but not read it. When I get a long plan like that, at least in this industrial context in which we're operating, you know it hasn't been thought out. The key things that need to be done, the determinants of success have not been identified.

You need to keep it short in order to make sure that people are going to use it. If you send somebody a 50- or 100-page marketing plan, I can guarantee you where it's going to end up. It's going to end up in the bottom drawer gathering dust.

As companies get leaner and you have fewer and fewer people accomplishing more and more, people don't have time to sit there plowing through a 100-page marketing plan every time something happens, every time they want to know what they're supposed to do. It's much more productive to identify the half dozen or so key things that need to be done this year, either to fix a problem or to take advantage of an opportunity. Then make sure that those things get done.

—*Marketing executive, a large glass manufacturer*

Table 9 (page 58) depicts the changes in emphasis in the action programs. Again, the most striking changes are in the service sector.

Another checklist question included several topics that are occasionally included in marketing plans. Respondents were asked to indicate which ones are discussed in their plans, and the answers are summarized in Table 10 (page 59). Manufacturers of industrial and consumer products have a high interest in forecasting demand, segmenting markets, measuring competitors' market shares, and determining the needs of customers. Companies in the service sector seem to have significantly less interest in forecasting demand and competitors' shares of market. Perhaps this is because it's very difficult to take such measurements in service markets.

Table 11 (page 60) shows how the answers have changed in the period between 1980 and 1989. Industrial manufacturers and service companies seem to have a significantly increased interest in such factors as market segmentation and technological trends. On the other hand, manufacturers of consumer products have lost interest in several factors, including technological trends.

Packaging the Plan

As noted in Chapter 1, marketing plans are often linked to other plans, usually the comprehensive business or strategic plan. But the marketing plan isn't necessarily part of the comprehensive plan. In fact, as Chart 9 indicates, the marketing plan is usually a separate document.

Most marketing plans run for a one-year period (see Chart 10). As for the length of the plan, the median turns out to be about 25 pages (see Chart 11). Of course, the length varies depending on whether the plan is for a single product or several, and whether the plan is part of the business plan (see Chart 12).

Most Critical Problem in Preparing Plans

Although marketing seems to have been elevated in importance, and marketing plans seem to contain more concentrated discussion of customers' needs and competitors' strengths and weaknesses, many marketing executives seem to remain dissatisfied with their plans and the planning process. Table 12 (page 61) shows what the most critical problems are.

Chart 9: Packaging the Marketing Plan

Q: Which of the following best describes the situation in your company or unit?

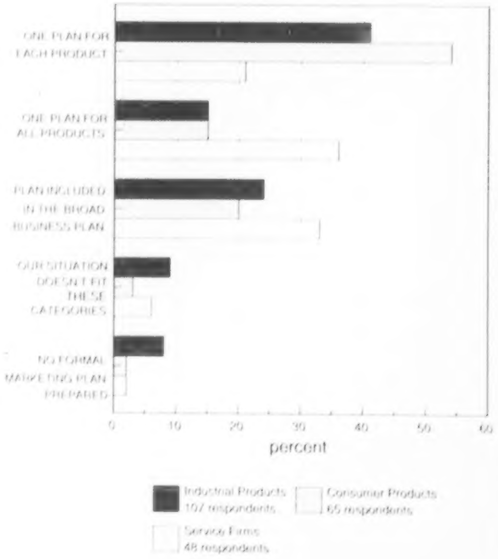


Chart 10: Time Covered by the Plan

Q: What period of time does your typical marketing plan cover?

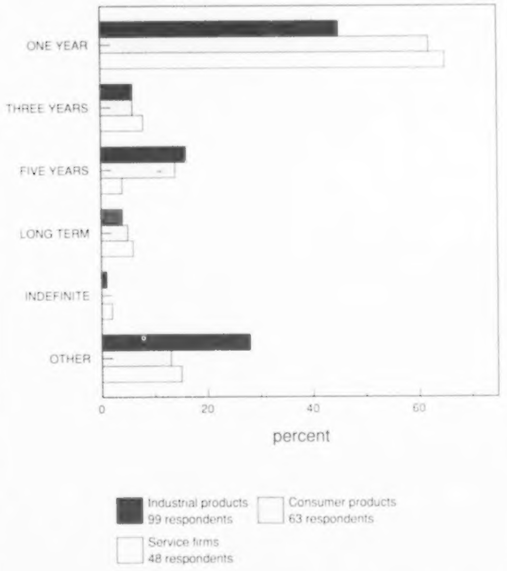


Chart 11: Length of Plan

Q: Approximately how long is your typical plan?

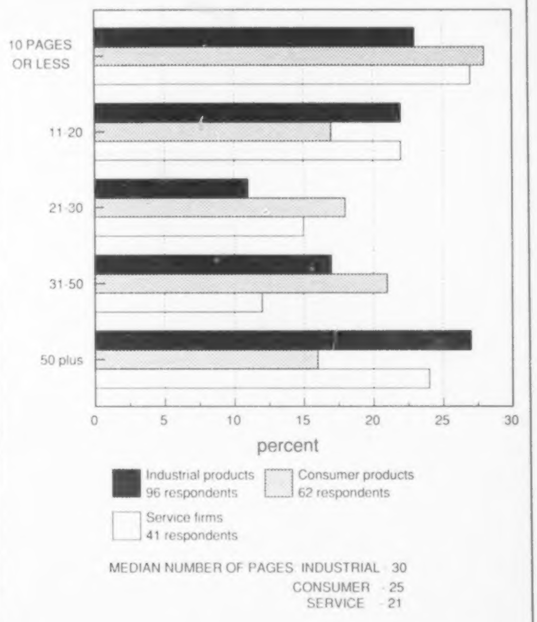
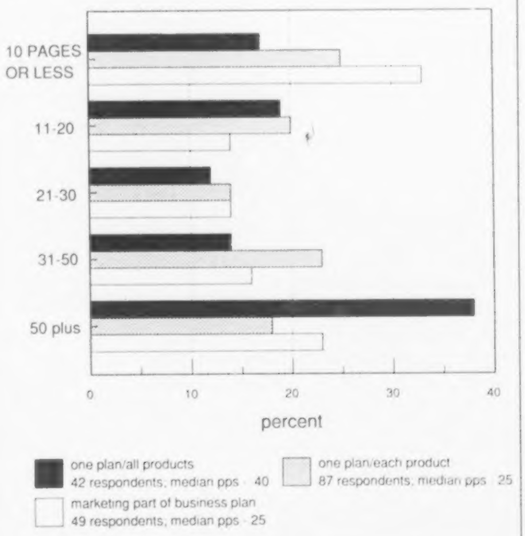


Chart 12: Length of Plan (by type of plan)

Q: Approximately how long is your typical marketing plan?



As usual, the answers vary according to the type of business, but it's evident that these are the primary problems: getting a consensus and cooperation, finding enough time to prepare the plan well, and making accurate forecasts. Note, also, that the problem of getting people to take the plans seriously is more prevalent in service companies than others.

Here are examples of how executives responded to the question of critical problems:

Getting consensus/cooperation:

Insuring there is full agreement on products to fulfill customer needs. This is accomplished by intensive communication with the sales organization.

—President, manufacturer of security equipment

Company-wide consensus on strategy, reorganization, trends, technology.

—Marketing manager, manufacturer of bearings and water pumps

Perceived notions on what the market is or is not by the corporate group. Resistance of line managers due to time demands and day-to-day pressure on running their units.

—Vice president, sales, manufacturer of steel plate

Conflict between U.S. corporate goals (which tend to be short-term) and European headquarters goals (long-term, strategic).

—Senior vice president, manufacturer of chemicals

Not enough time:

Time constraints on line personnel who are responsible for input to the plan but have day-to-day responsibilities.

—Vice president, appliance manufacturer

Dedicating the necessary time to collect the economic and market inputs, interact with other support functions, and develop the plan narrative. This effort is competing with daily problems and opportunities which are ongoing.

—Director, sales/marketing, manufacturer of automotive components

Time away from daily fire fighting.

—Vice president, marketing, food manufacturer

The difficulty of forecasting:

Evaluating factors which will most likely affect the business during the planning period (the economy, competitive activity) and determining appropriate pro-active or contingent responses in advance.

—Vice president, sales and marketing, manufacturer of woodworking machinery

Cloudy crystal ball—in a dynamic and uncertain environment.

—General manager, planning, steel manufacturer

Main Shortcomings of Marketing Plans

Respondents were asked to elaborate on what they considered the main shortcomings of their marketing plans. Table 13 (page 62) depicts the answers.

For industrial companies, the main shortcomings were that the plans weren't realistic enough and they contained too little competitive analysis. (Note that "more competitive analysis" emerged in Table 3 as one of the most important changes in plans.) For producers of consumer goods, the main problems were that the plans put too much emphasis on the short term, and, in spite of the short-term emphasis, the plans aren't adequately up-to-date. For service companies, the main shortcomings are a lack of specificity and an overemphasis on the short term.

Here are some comments that illustrate these complaints:

Not realistic enough:

High management pressure for optimistic forecasts.

—Director of sales and marketing, manufacturer of automobile components

Forced numbers. This results in a moving "hockey stick" from year to year. (The coming year is always going to have a much better sales picture.)

—Vice president, marketing & technology, paper manufacturer

Fixing old problems takes longer than estimated.

—Director of strategic planning and business development, manufacturer of control systems

Overly optimistic sales forecasts, unrealistic time schedules—particularly for new products.

—Vice president, marketing, manufacturer of lighting fixtures

Not enough competitive analysis:

They could do a better job in delineating competitive strategies and intelligence as well as our response to competitive threats and actions.

—Senior vice president, manufacturer of automotive components and assemblies

Need more consideration of possible competitor action—"What ifs?" Also need more competitor targeting.

—Director, marketing, glass manufacturer

Cannot address the advent of competitive forces from Asia, Europe, transplants, etc.

—Marketing manager, bearing manufacturer

There is more focus on "marketing" than "business" planning. As a result, not enough focus is placed on numerous areas of potential competitive advantage and cost effectiveness.

—Vice president, marketing, personal-care products

Short-term emphasis:

We should look at the longer (five-year) approach, but we are measured—and we get our bonuses—by how we perform in each individual year.

—Vice president, marketing, technical papers

Primary focus on just one year does not do an adequate job of strategic planning for the future. The dynamic nature of consumer markets requires more emphasis on developing longer term, sequential action plans.

—Vice president, marketing, toiletries manufacturer

The conflict between short-term financial issues and long-term marketing issues.

—Director, marketing, manufacturer of machine tools

Not specific enough:

Not enough detail for good implementation plans. Everyone nods their heads, but they leave decision-making meetings not really knowing how the decision will affect their work groups.

—Manager, marketing and business planning, manufacturer of automotive components

> The plan is big on objectives and program assignments. Short on specifics—how this will happen and why.
>
> —*Senior vice president, marketing and research, life insurance company*

> Not enough end-user information and direction. Not detailed enough. Too general. Not specific enough on steps for implementation.
>
> —*President, knitted fabrics division, textile manufacturer*

Future Emphasis on Marketing Plans

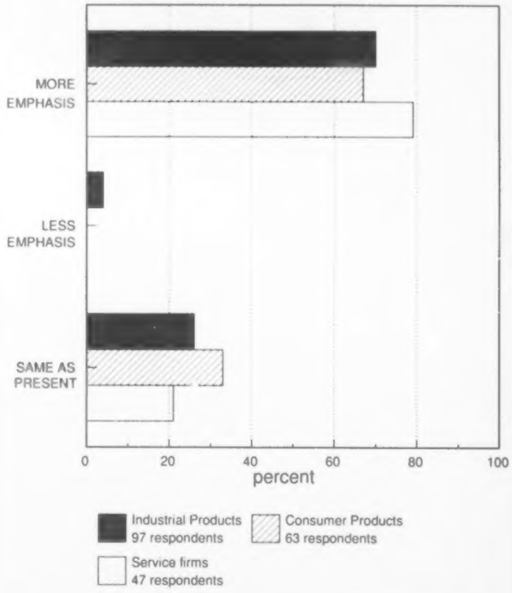
The final survey question was about expectations with respect to marketing plans. Chart 13 shows that an overwhelming majority of the respondents expect to see more emphasis on the marketing plan. Almost no one expected to see less emphasis.

Some important changes in marketing plans have taken place in recent years. Today's plans are more likely to focus on the customer and to include a competitive analysis. Although the marketing plan may be linked to other plans, such as the company's or division's strategic plan, it is usually packaged as a separate document. It typically covers a year and runs about 25 pages.

The plan may detail several different strategies or tactics, chiefly those referring to market share, pricing, profits, new products, and the sales effort.

Chart 13: Future Emphasis on Marketing Plan

Q: Over the next few years, do you expect your unit to place...



The most conspicuous content differences between the 1980 and 1989 surveys suggest that service companies are taking marketing far more seriously than they did in the past. The most critical problems in preparing plans are getting cooperation and finding enough time to turn out a competent document. The main shortcomings are that plans aren't sufficiently realistic, they don't include enough competitive analysis, and they're too general.

In spite of these problems, marketing plans are likely to become even more important in the future.

Exhibit 1

FACET ENTERPRISES, INC.

Strategic Planning

Guidelines for Industry, Market and WOTS* Analysis

I. Industry Analysis
II. Market Analysis
III. Customer Analysis

Review current customer base to evaluate if they are likely to remain customers in the future (see schedule). It might also prove useful to evaluate why non-Facet customers buy competitive products.

Analysis Schedule

Products:

Identification of Facet customer(s) ____________________

Identification of ultimate customer(s) ____________________

What market segments are served by Facet product(s)? ____________________

Should this remain the same? ____________________

How is Facet product perceived by customer(s)? ____________________

By non-customer(s)? ____________________

Why do customers buy Facet product(s)? ____________________

Why do ultimate consumers buy Facet products? ____________________

Will customers continue to buy Facet product(s) in 3-5 years? ____________________

If not, why not? ____________________

* Weaknesses, Opportunities, Threats, Strengths

Exhibit 2

A VEHICLE MANUFACTURER

Strategic Marketing Plan—Outline

The need to plan and prepare our competitive strategies is essential in today's business environment. Being aggressive in today's marketplace isn't enough to gain that advantage over competition and increase our market share. Development of a Strategic Marketing Plan is part of the profit planning process.

Mission Statement

The mission statement is the cornerstone of your Strategic Marketing Plan. We have attached, for your information, examples of mission statements.

What is your division's mission statement?

Statement of Competitive Position

Knowing the division's competitive position in your industry, relative to your mission statement, is essential.

What is your division's advantage over competition in the wholesale market place?

What is your division's advantage over competition in the retail market place?

The following areas need to be considered in determining your competitive advantage: Distribution, Product(s), Promotion, and Advertising.

Marketing Opportunities and Threats

Knowing the division's competitive position in your market enables you to identify your opportunities and threats.

What are the specific opportunities and threats influencing your division's success going forward?

How does the customer perceive the division's advantages over competition in the buying process?

Statement of Objectives

In order to take advantage of your opportunities and defend your position, objectives must be established.

Define specific objectives which will take advantage of your opportunities and defend your position.

Action Plans

Once you have established your objectives, a specific action plan needs to be developed to achieve your goal. There are a number of areas that need to be addressed in your action plan.

Comment on the following areas as they pertain to your division:

- Distribution
- Product
- Advertising
- Promotion

Listed above are some of the traditional programs available for your action plan. However, the list is not meant to be all-inclusive. Other ideas can be developed in your Strategic Marketing Plan which support your objectives and defend your competitive position. Additionally, all programs should be viewed on a cost benefit basis. .

If your marketing plan includes other programs, please provide program(s) details and costs.

Sources of Information

I. *Internal Information*

- A. Current YTD Financial Statements
- B. Current YTD District Reviews
- C. Current Wholesale Shipment Report
- D. Current Retail Warranty Report
- E. Industry Forecast
- F. Current BOM information by product type
- G. Current average invoice information by product, by division
- H. State and Region Retail Report
- I. National Retail Performance
- J. YTD model analysis
- K. YTD product segmentation analysis
- L. COA Wholesale Dollar Market Share Analysis
- M. Owner survey information
- N. Dealer survey information
- O. Dealer and market rankings (A,B,C,D, & E classifications)

II. *External Information*

- A. Economic trends
- B. Statistical Surveys (mobile home, RV, motorized/non-motorized product reports)
- C. RVIA Wholesale Reports
- D. Competitive information
- E. Dealer prospect lists

Exhibit 3

A CONSUMER SERVICES PROVIDER

Consumer Services and Products
Strategic Plan

Mission

To become the premiere source of residential and commercial services and products to consumers in the United States and selected international markets. These services and products will be ones that improve the quality of life and assist the consumers in maintaining their property and surroundings.

Objectives

1. To develop the [Company] Quality Service Network, which will be made up of several service companies, each being specialists in their own field, which the consumer can access through one source.
2. To build market share in each of the operating units.
3. To maintain a minimum of X% annual increase in both revenues and profits.

The operational objectives are:

1. To make available the entire range of consumer services in a profitable and timely manner in all major markets in the U.S.
2. To establish and enforce quality standards among all the operating units.
3. To introduce some of the services into selected foreign markets.

The major marketing objectives of the [Company] Quality Service Network are:

1. Cross sell to existing customers of one [Company] operating unit the services of the other operating units.
2. Expand the customer base of the [Company] Network to include customers who have no services with any operating unit.
3. Increase customer loyalty and retention.
4. Expand the number of services available through the [Company] Quality Service Network.

Strategy

1. Each operating unit will continue to build brand awareness for its own service or product. [X], [Y], and [Z] will be promoted under their respective brand names.
2. All the different services and products will be linked together by the 1-800-XXX-XXXX number and the Partners Logo Block.
3. Channels of distribution will be increased by expansion of the services into all markets. Certain segments of the business may be more suitable to franchising while others should be company owned.
4. Foreign markets will be pursued with a minimum investment strategy. A foreign partner will be selected to license the know-how from [Company]. [X] will be the entering brand in the [foreign] markets.
5. The *Partners Pledge* will represent the minimum standards by which all operating units are measured. All [Company] service centers must agree to abide by the pledge before they will be certified to operate under the [Company] Quality Service Network umbrella. This Partners Pledge will be the network's guarantee to the customer that service will be delivered on time and that the job will be done right.

Summary of Mission and Objectives by Operating Units

[Company] currently provides the following services:

Residential and commercial cleaning of carpets, upholstery, and drapes; residential disaster restoration; contract cleaning services; residential home cleaning service; lawn care service; termite and pest control; home system care; and consumer products.

[Company] currently operates company owned franchise branches providing termite and pest control to residential, commercial and industrial customers. Many service centers provide other related services such as radon inspections, moisture control, and industrial weed control. Lawn care is provided in several markets.

Objectives:

A summary of the key objectives from the plan are:

1. To achieve a X percent increase in income before acquisition and partnership costs each calendar year.
2. To achieve a minimum X percent increase in corporate revenues each calendar year.
3. To maintain a steady increase in the pest control customer base of no less than X percent each calendar year and in the termite renewal base of no less than X percent each year.
4. To become the nations' largest pest control company by the end of 19—.
5. Add other services which are related and may be necessary to defend the existing customer base.
6. Expand termite and pest control services into markets which currently have no such service available.
7. Reacquire when possible existing franchise operations in certain major markets to accelerate growth and market share.
8. Franchise selected markets to obtain better coverage in these territories while maintaining a high ROI.
9. Establish pest control operations in selected foreign countries.

Exhibit 4

SONESTA HOTELS

Marketing Plan Outline

***Note: Please keep the plan concise—Maximum of 20 pages plus summary pages. Include title page and table of contents. Number all pages.

I. *Introduction.* Set the stage for the plan. Specifically identify marketing objectives such as "increase average rate," "more group business," "greater occupancy," or "penetrate new markets." Identify particular problems.

II. *Marketing Position.* Begin with a single statement that presents a consumer benefit in a way that distinguishes us from the competition.

III. *The Product.* Identify all facility and service changes that occurred in 1989 and are planned for 1990.

IV. *Marketplace Overview.* Briefly describe what is occurring in your marketplace that might impact on your business or marketing strategy, such as the economy, the competitive situation, etc.

V. *The Competition.* Briefly identify your primary competition (3 or fewer) specifying number of rooms, what is new in their facilities, and marketing and pricing strategy.

VI. *Marketing Data*

- A. Identify top 5 geographic areas for transient business, with percentages of total room nights compared to the previous year.
- B. Briefly describe the guests at your hotel, considering age, sex, occupation, what they want, why they come, etc.
- C. Identify market segments with percentage of business achieved in each segment in current years (actual and projected) and project for next year.

VII. *Strategy by Market Segment*

- A. Group
  - 1. *Objectives:* Identify what you specifically wish to achieve in this segment. (For example, more high-rated business, more weekend business, larger groups.)
  - 2. *Strategy:* Identify how sales, advertising and public relations will work together to reach the objectives.
  - 3. *Sales Activities:* Divide by specific market segments.
    - a. Corporate
    - b. Association
    - c. Incentives
    - d. Travel agent
    - e. Tours
    - f. Other

    Under each category include a narrative description of specific sales activities geared toward each market segment, including geographically targeted areas, travel plans, group site inspections, correspondence, telephone solicitation and trade shows. Be specific on action plans, and designate responsibility and target months.
  - 4. *Sales Materials:* Identify all items, so they will be budgeted.
  - 5. *Direct Mail:* Briefly describe the direct mail program planned, including objectives, message and content. Identify whether we will use existing material or create a new piece?
  - 6. *Research:* Indicate any research projects you plan to conduct in 1990 identifying what you wish to learn.
- B. Transient (The format here should be the same as group throughout)
  - 1. *Objective*

2. *Strategy*
3. *Sales Activities:* Divide by specific market segments.
    a. Consumer (rack rate)
    b. Corporate (prime and other)
    c. Travel Agent: business, leisure, consortia
    d. Wholesale/Airline/Tour (foreign & domestic)
    e. Packages (specify names of packages)
    f. Government/Military/Education
    g. Special Interest/Other
4. *Sales Materials*
5. *Direct Mail*
6. *Research*

C. Other Sonesta Hotels

D. Local/ Food & Beverage
1. *Objectives*
2. *Strategy*
3. *Sales Activities:* Divide by specific market segments
    a. Restaurant and Lounge, external promotion
    b. Restaurant and Lounge, internal promotion
    c. Catering
    d. Community Relation/Other
4. *Sales Materials* (e.g. banquet menus, signage, etc.)
5. *Direct Mail*
6. *Research*

VIII. *Advertising*

A. Subdivide advertising by market segment and campaign, paralleling the sales activities (group, transient, F&B).

B. Describe objectives of each advertising campaign identifying whether it should be promotional (immediate bookings) or image (longer-term awareness).

C. Briefly describe contents of advertising identifying key benefit to promote.

D. Identify target media by location and type (e.g. newspaper, magazine, radio, etc.)

E. Indicate percent of the advertising budget to be allocated to each market segment.

IX. *Public Relations*

A. Describe objectives of public relations as it supports the sales and marketing priorities.

B. Write a brief statement on overall goals by market segment paralleling the sales activities. Identify what proportion of your effort will be spent on each segment.

X. *Summary:* Close the plan with general statement concerning the major challenges you will face in upcoming year and how you will overcome these challenges.

Exhibit 5

BROWN GROUP, INC.

BRAND ____________________

ACTION PLAN

DESCRIPTION OF PLAN: ____________________

OBJECTIVE: ____________________

RATIONALE: ____________________

INVESTMENT/FUNDS REQUIRED: ____________________

BENEFITS:

Tangible: (including Sales & Profit contribution estimates) ____________________

Intangible: ____________________

		DATES:	
MAJOR STEPS	RESPONSIBILITY	BEGIN	COMPLETE

Exhibit 6

MARKETING PROGRAM PLAN
A LARGE BANK

Business Unit—Program Name

1. **Background**

   Summarize what market conditions/situation led to this program and/or how it relates to the product's annual marketing plan.

2. **Program Summary**

   High-level summary description of the program (including scope, content, etc.).

3. **Business/Marketing Objectives**

   a. *Quantitative*. Specific, numeric, measurable goals for the program (e.g., $/# sales, share, inquires, etc.). If available, provide goals and past performance by Region/AMG.

   b. *Qualitative*. Non-numeric goals (e.g., enhance employee sales effort, etc.).

Indicate how program performance will be tracked/measured relative to objectives a & b above.

4. **Marketing Strategies**

   Planned action to achieve the objectives above. Discuss the product, pricing, promotion, delivery, field incentives, advertising, PR, etc. Discuss specifically *what role advertising will play* and specific *advertising objectives*.

5. **Target**

   a. *Definition*. Demographics, psychographics, financial relationship/use.

   b. *Frame of Reference*. What does the target already know about the category, our product and the competition? What are they concerned about? What is their primary problem? How do they shop for the product?

   c. *Purchase Motivators*. What factors drive purchase selection (one brand vs. another)? Why would they buy [our bank], why wouldn't they?

6. **Competitive Frame**

   What category are we competing in? Who are we primarily competing with (i.e., where will we source our volume to meet the objectives above)? Where do we stand vs. this competition? How do we compare to this competition on the Purchase Motivators above?

7. **Point(s) of Difference**

   The factors that most distinguish us from the competition and will motivate purchase of us. Which factor is the most meaningful/motivating?

8. **Communication Objectives**

   What we want the target to *think* and *do* as a result of the advertising. Be specific and focused.

9. **Creative Strategy**

   What we must communicate to motivate the target to think and do what we want. Expressed as follows:

   [Product] is better than [Competition] for [Target] because it [Buying Motivator] as a result of [Support for Buying Motivator]

   The Competition and Target are summarized from the information in sections 5 and 6 above.

   The Product is written as it will be described in the ad (e.g., "[Bank] Home Equity Loans and Lines of Credit").

   The Buying Motivator is the *one*, essential factor that when communicated will produce the desired response. It must be singular and focused. Almost always expressed as a benefit, it can be a feature if the benefit is self evident.

The Support provides the reason(s) to believe the Buying Motivator and explains it. There may be more than one reason, but they must be listed in priority order and should include only the information to be communicated in the copy.

10. **Tonality**

    The basic character conveyed by the advertising.

11. **Executional Guidelines**

    Indicate copy mandatories (e.g., legal/corporate requirements, #800, linkage to corporate theme, etc.).

12. **Offer Details**

    Provides additional details of how the offer (if any) is structured and will work. The information is for background purposes and unless it is included in the Support or Executional Guidelines sections above, it will not necessarily appear in the copy.

13. **Timing**

    Specify timing for the program (include documentation of product seasonality, if available), and key milestones.

14. **Budget**

    Specify the budget for the program.

Exhibit 7

Description of Elements of a Marketing Plan
Industrial Products Division, The Goodyear Tire and Rubber Company

General Market Planning Information

1. **What Is an Annual Marketing Plan?**

Broadly speaking, an Annual Marketing Plan is a document that sets forth (a) business goals, and (b) action programs required to achieve those goals for a twelve-month period. Here is a more precise definition:

The Annual Marketing Plan is an organized, documented, written communication that does these things—

a. Defines the business situation—past, present, and future.
b. Defines the opportunities and problems facing the business.
c. Establishes specific and realistic business objectives.
d. Defines marketing strategy and action programs required to accomplish the objectives.
e. Pinpoints responsibility for execution of programs.
f. Establishes timetables and controls for execution of programs.
g. Translates objectives and programs into forecasts and budgets which provide a basis for planning by other departments of the company.

2. **Checklist in Development of a Plan**

a. Situation analysis.
b. Formation of objectives.
c. Development of strategy.
d. Action assignments.
e. Management endorsement.

3. **Why Do Some Marketing Plans Fail?**

a. Lack of a real plan.
b. Lack of an adequate situation analysis.
c. Prepared without adequate participation of supporting functions (production, development, advertising, etc.).
d. Unrealistic goals.
e. Plan not adequately "sold" during and after preparation.
f. Unanticipated competitive moves, unanticipated product deficiencies, and acts of God.

4. **Reasons Why Market Information Is Needed.**

a. Nothing replaces cold, hard facts to direct market planning efforts.
b. To identify *problems* and *opportunities* from which marketing objectives will be established.
c. To guide the planning of other company functions.

5. **What Kinds of Facts Are Needed for Market Planning?**

a. Who are the users, where are they located, and how much do they buy, who do they buy from and why?
b. How has promotion and advertising been employed and which approach has been more effective?

c. What are the pricing changes in the market—who has initiated these changes and why?

d. How are the market's attitudes and values formed concerning competitive products?

e. What channels of distribution supply consumers and how do they function?

f. Who are the competitors, where are they located, what advantages/disadvantages have they compared to our company?

g. What marketing methods are used by the most successful competitors? By the least successful?

h. What are the overall objectives of the corporation for the coming year and five years hence?

i. What are the company strengths? Where are we recognized as leaders?

j. Where does the company have limitations and weaknesses compared to competition?

k. What are our production capabilities in all product lines?

6. **Sources of Market Information**

a. Outside the Company

1. Customers (most important source)
2. Competitive literature
3. Suppliers
4. Trade magazines
5. Trade associations
6. Professional organizations

b. Government

1. Census data
2. Patent reviews
3. Federal publications

c. Inside the Company

1. Market research reports
2. Sales call reports (data requested to be keyed to develop market information)
3. Orders
4. Complaints
5. Informed persons
6. Past year's customer correspondence
7. Sales meeting summaries
8. Technical reports

Exhibit 8

Marketing Planning Cycle
Merck Sharp & Dohme, Division of Merck & Co., Inc.

First Quarter

- Product Managers' Quarterly Reports (previous quarter's results).

Second Quarter

- Sales Forecasts—Current year estimated actuals and forward planning for next two years.
- Product Managers' Quarterly Reports (previous quarter's results).
- Annual Marketing Strategy Review Meeting.
- Prepare Marketing Strategy Profiles for next year.
- Cost Promotion Program for next year.
- New project proposals sent to Research.
- Prepare guest physician program for next year.

Third Quarter

- Sales Forecasts—Current year estimated actuals and forward planning for next two years.
- Finalize next year's Promotion Programs.
- Product Managers' Quarterly Reports (previous quarter's results).
- Marketing management formal review of next year's Promotion Program.
- Review next year's profit plan with divisional management.

Fourth Quarter

- Sales Forecasts—Current year estimated actuals and forward planning for next two years.
- Product Managers' Quarterly Reports (previous quarter's results).
- Review next year's profit plan with corporate management.
- Complete Marketing Strategy monograph for next year.
- Prepare next year's strategic plan (5-year long-range plan).

Exhibit 9

HUNTER-MELNOR, INC.

LIGHTING
Table of Contents

I. Industry Analysis
- Market Size & Trends
- Distribution Channels
- Competitive Situation

II. Product Background
- Categories
- Brand Determination
- Recent Purchases
- DIY Demographics
- Discount Store Fixture Sales

III. Situation Analysis
- Problems
- Opportunities
- Critical Issues

IV. Lighting Objectives/Strategies
- Objectives
- Product Strategy
- Product Road Agenda
- Product Development Schedule
- Pricing Schedule

V. Product Development
- Distribution Strategy
- Manufacturing Strategy
- Communications Strategy
- Communications Budget

VI. Financial Summary

VII. Lighting Opportunity Recap

Exhibit 10

COUNTRY COMPANIES

Development Of Strategic Plan

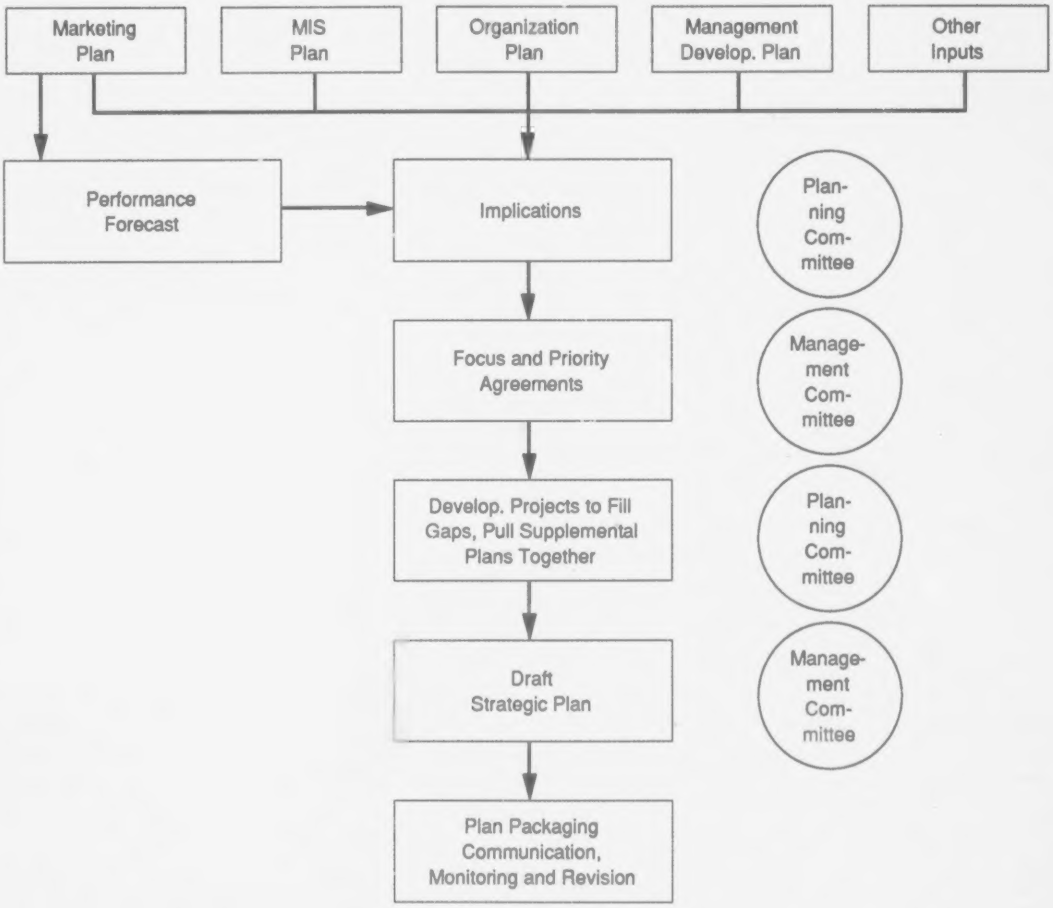

Marketing Plan
MIS Plan
Organization Plan
Management Develop. Plan
Other Inputs
Performance Forecast
Implications
Planning Committee
Focus and Priority Agreements
Management Committee
Develop. Projects to Fill Gaps, Pull Supplemental Plans Together
Planning Committee
Draft Strategic Plan
Management Committee
Plan Packaging Communication, Monitoring and Revision

Exhibit 10 (cont.)

COUNTRY COMPANIES

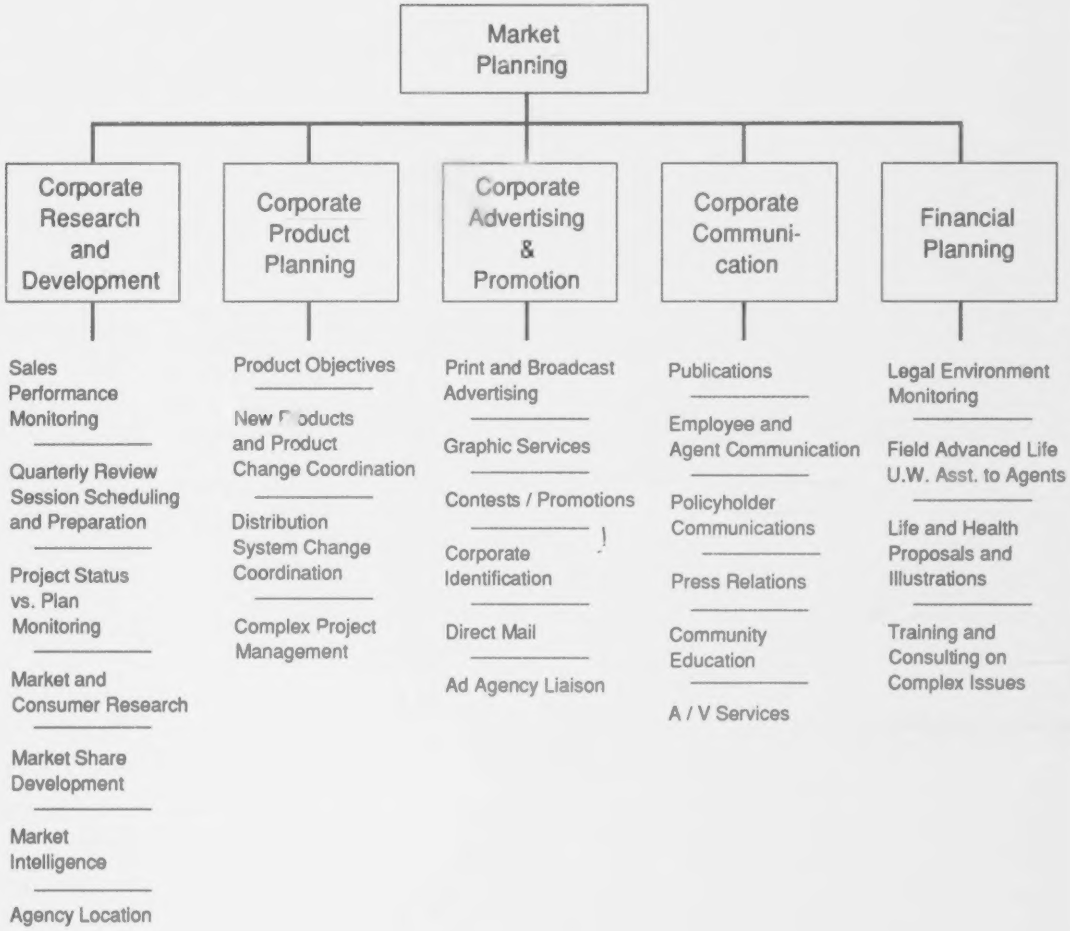

Market Planning
Corporate Research and Development
Sales Performance Monitoring
Quarterly Review Session Scheduling and Preparation
Project Status vs. Plan Monitoring
Market and Consumer Research
Market Share Development
Market Intelligence
Agency Location
Corporate Product Planning
Product Objectives
New Products and Product Change Coordination
Distribution System Change Coordination
Complex Project Management
Corporate Advertising & Promotion
Print and Broadcast Advertising
Graphic Services
Contests / Promotions
Corporate Identification
Direct Mail
Ad Agency Liaison
Corporate Communication
Publications
Employee and Agent Communication
Policyholder Communications
Press Relations
Community Education
A / V Services
Financial Planning
Legal Environment Monitoring
Field Advanced Life U.W. Asst. to Agents
Life and Health Proposals and Illustrations
Training and Consulting on Complex Issues

Exhibit 10 (cont.)

COUNTRY COMPANIES

Plan Packaging, Communication Monitoring and Revision

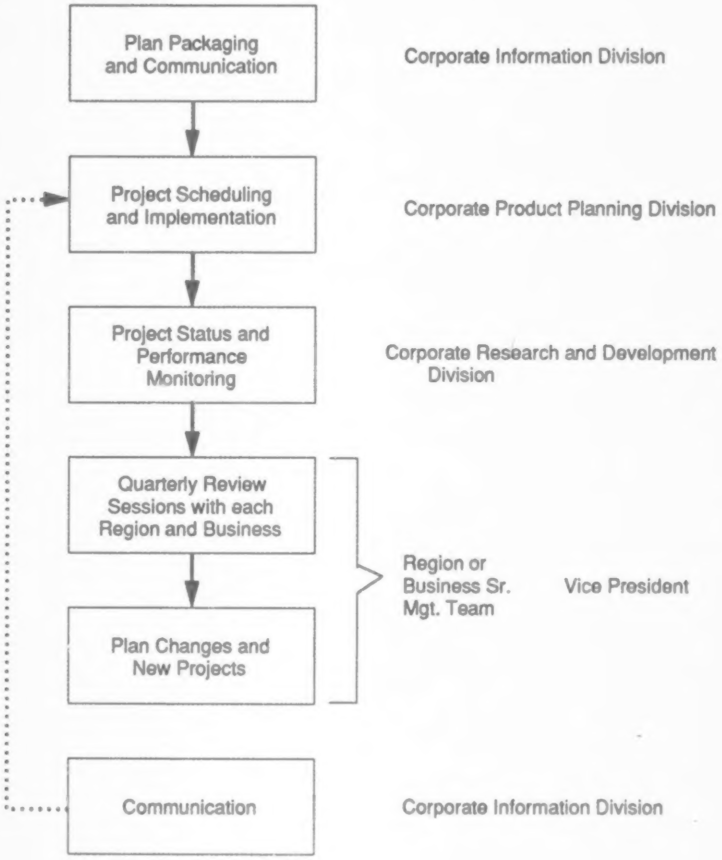

Plan Packaging and Communication
Corporate Information Division
Project Scheduling and Implementation
Corporate Product Planning Division
Project Status and Performance Monitoring
Corporate Research and Development Division
Quarterly Review Sessions with each Region and Business
Plan Changes and New Projects
Region or Business Sr. Mgt. Team
Vice President
Communication
Corporate Information Division

Exhibit 11

E.I. DU PONT DE NEMOURS & COMPANY

Business Plan Outline

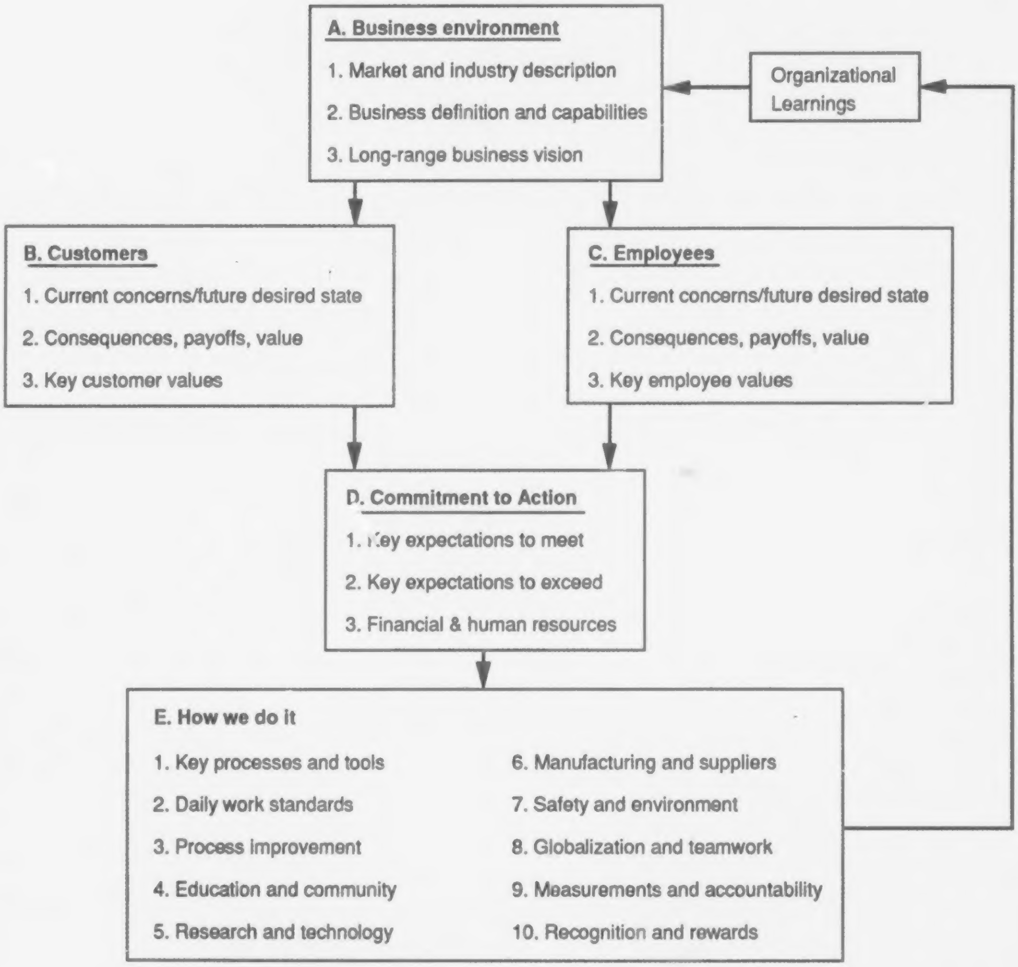

A. Business environment
1. Market and industry description
2. Business definition and capabilities
3. Long-range business vision
Organizational Learnings
B. Customers
1. Current concerns/future desired state
2. Consequences, payoffs, value
3. Key customer values
C. Employees
1. Current concerns/future desired state
2. Consequences, payoffs, value
3. Key employee values
D. Commitment to Action
1. Key expectations to meet
2. Key expectations to exceed
3. Financial & human resources
E. How we do it
1. Key processes and tools
2. Daily work standards
3. Process improvement
4. Education and community
5. Research and technology
6. Manufacturing and suppliers
7. Safety and environment
8. Globalization and teamwork
9. Measurements and accountability
10. Recognition and rewards

Exhibit 12

AC ROCHESTER DIVISION
GENERAL MOTORS
1990-1994 Business Plan

Marketing Plan
Business Unit Profile

PRODUCT OFFERING:

MAJOR CUSTOMER GROUPS:

Customers	*Projected 1990 Calendar Year % of SBU Sales $*	*Primary Regions: (North America, Asia-Pacific, Europe, Other)*
GM OEM		
Outside OEM		
Aftermarket		
GM OEM		
Outside OEM		
Aftermarket		

BUSINESS UNIT ASSESSMENT:

Strengths/Opportunities:

Weaknesses/Threats:

COMPETITIVE PROFILES:

Major Competitors	*% World Share*	*Strengths*	*Weaknesses*	*Strategic Thrusts*

Exhibit 12 (cont.)

AC ROCHESTER DIVISION
GENERAL MOTORS

Marketing Strategies

MAJOR MARKETING STRATEGIES:

Product Area	*Target Market Segments*	*Market Objectives*	*Key Customers*	*Marketing Strategies*

PRODUCT SUMMARY:

Product/Subsystem	*1990*	*1991*	*1992*	*1993*	*1994*	*Increasing Emphasis (+) Maintaining Emphasis (o) or Decreasing Emphasis (-)*	*Rationale/ Comments*
% of SBU Sales $ Sales ($000,000 Omitted)							
% of SBU Sales $ Sales ($000,000) Omitted							
% of SBU Sales $ Sales ($000,000) Omitted							

Exhibit 13

PPG INDUSTRIES, INC. - GLASS GROUP

Market Development Plan

(New Market/Business/Product Line)

Format:

1. Summary to define and describe the new market/business/product.

   A. Life cycle status and implications (1 page - text)

2. Objectives of the venture (both marketing and financial - 5 years). (1 page - text and statistics)

3. Strategies and practical guidelines for the initial (2 years) operations of the business. (3 pages - text)

4. Business segment analysis, including: (5 to 10 pages - text and statistics)

   A. Background history
   B. Barriers to entry
   C. Market overview/market segments
   D. Potential demand, by segment and in total
   E. Competing products - producer strength/weakness analysis
   F. Problems/opportunities
   G. Risks/threats

5. Pricing analysis, cost/price/volume relationships, profitability trend. (1 page - text and statistics)

6. Manufacturing parameters: (2 pages - text and statistics)

   A. Facilities/location(s)
   B. Product mix
   C. Inventory
   D. Delivery
   E. Order cycle
   F. Learning curve

7. Sales and distribution organization; relevant product/marketing priorities. (3 pages - text)

8. Key determinants of success with venture. (2 pages - text)

9. Contingency/sensitivity analysis. (1 page - text and charts)

10. Tactical action step program, including: (5 pages - text and chart)

    - Marketing goals
    - Sales goals
    - Manufacturing operations
    - Support activities (advertising, technical services, etc.)

11. Exhibits (if any).

Table 1: Most Important Changes in Procedures for Preparing Plans

Question: Compared with, say, five years ago, what are the most important changes in your procedures for preparing marketing plans?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
More input from other groups	28%	24%	16%
More integration with company strategy	19	21	26
More formal, standardized	17	24	13
More focus on competitiveness	15	5	10
More focus on customers/markets	15	8	10
Plan is longer/more complex	9	8	10
Didn't have formal marketing plan in past	9	10	13
More emphasis on execution	9	11	3
More use of computers	7	6	3
Plan is shorter/less complex	6	11	-
More focus on short term	6	3	-
Responsibilities better defined	4	8	3
More focus on long term	1	11	3
Planning more decentralized	2	3	13
Objectives better defined	-	2	16
Planning more centralized	-	2	10
No change	5	3	-
Other (e.g., more lead time, better information, used to rely on consultants)	13	8	10
Number of respondents	96	63	31

Table 2: Topics Included in Top Management's Directive

Question: If management does predetermine objectives, which of the following topics are included in this top-down instruction?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Profit goals	69%	73%	73%
Sales goals	56	53	52
Budget constraints	52	56	79
Choice of target markets	42	33	46
Market share goals	39	46	42
Pricing strategy	39	42	50
New product/service development	39	33	35
Market penetration strategy	30	20	23
Cash flow goals	29	26	25
Product or service positioning	26	33	50
Production constraints	26	18	17
Distribution strategy	24	26	31
Advertising and promotion strategy	23	27	27
Number of respondents	109	66	48

Table 3: Most Important Changes in Content of Plans

Question: Compared with, say, five years ago, what are the most important changes in the content of your marketing plans?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
More customer/market focus	35%	26%	26%
More competitive analysis	21	16	15
More analysis and rationale/ more realistic	18	21	15
More specific objectives and measurements	14	23	19
More focus on strategy	14	20	7
More focus on action	13	18	19
More quantitative/factual/ research information	6	10	7
More focus on profit / return on investment	4	7	7
More focus on global issues	4	3	-
More detailed forecasts	3	7	4
More emphasis on differentiation	3	2	4
More emphasis on long term	3	-	4
More focus on short term	3	-	-
More environmental analysis	2	5	4
No change	1	2	-
Other	9	12	11
Number of respondents	91	61	27

Table 4: Objectives Covered in the Plan

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Market share	77%	77%	69%
Profit margins	76	74	63
New product/service development	68	65	63
Field sales effort	59	44	65
Sales to major accounts	59	33	46
Pricing policy	55	56	54
Product quality	52	58	50
Customer/product service	51	39	56
Export sales	48	18	4
Sales promotion	39	47	31
Inventories/physical distribution	39	29	8
Advertising expenditures	38	49	50
Distributor/dealer relations	36	23	25
Sales training	32	32	40
Marketing research	30	47	52
Advertising themes	28	49	50
Regional selling and promotion	23	38	27
Other marketing overseas	20	9	15
Packaging	11	29	8
Telemarketing	10	18	23
Number of respondents	109	66	48

Table 5: Emphasis on Objectives: 1980 vs. 1989

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to plans?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Increased emphasis on:		
Customer/product service	41%	51%
Decreased emphasis on:		
Field sales effort	72	59
Marketing research	44	30
Advertising themes	41	28
CONSUMER PRODUCT MANUFACTURERS		
Increased emphasis on:		
Customer/product service	28	39
Decreased emphasis on:		
Sales promotion	69	47
Advertising expenditures	64	49
Field sales effort	64	44
SERVICE FIRMS		
Increased emphasis on:		
New-product development	52	63
Profit margins	45	63
Marketing research	39	52
Pricing policy	39	54
Advertising expenditures	39	50
Sales to major accounts	26	46
Decreased emphasis on:		
Sales promotion	52	31

Note: This table records only those cases where there has been an increase or decrease of at least 10 percentage points. For example, 41 percent of the 1980 respondents indicated that customer/product service was covered in their plans, and 51 percent reported the same thing in 1989, the difference is 10 percentage points. This item qualifies for inclusion in this table. This rule also applies to Tables 7, 9, and 11.

Table 6: Strategies or Tactics Covered in the Plan

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Market share	72%	68%	56%
Pricing policy	67	67	71
Field sales effort	62	58	77
New product/service development	62	67	75
Sales to major accounts	60	47	54
Profit margins	56	52	46
Customer/product service	52	39	69
Sales promotion	46	67	65
Export sales	45	17	8
Distributor/dealer relations	42	32	35
Advertising themes	37	67	63
Inventories/physical distribution	36	38	13
Product quality	34	53	42
Advertising expenditures	32	53	42
Sales training	29	30	46
Regional selling and promotion	28	56	52
Marketing research	26	46	54
Other marketing overseas	24	11	19
Packaging	18	42	13
Telemarketing	15	21	31
Number of respondents	109	66	48

Table 7: Emphasis on Strategies and Tactics: 1980 vs. 1989

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Increased emphasis on:		
Customer/product service	38%	52%
Packaging	4	18
Decreased emphasis on:		
Marketing research	38	26
CONSUMER PRODUCT MANUFACTURERS		
Increased emphasis on:		
Sales to major accounts	32	47
Inventories/physical distribution	27	38
Decreased emphasis on:		
Pricing policy	77	67
SERVICE FIRMS		
Increased emphasis on:		
New-product development	55	75
Customer/product service	52	69
Sales promotion	45	65
Marketing research	45	54
Pricing policy	42	71
Profit margins	32	46
Advertising expenditures	29	42
Sales training	26	46
Sales to major accounts	26	54
Distributor/dealer relations	23	35

See note on Table 5.

Table 8: Action Programs Covered in the Plan

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Field sales effort	66%	67%	73%
Market share	65	61	50
New product/service development	63	64	79
Sales to major accounts	63	44	50
Sales promotion	61	73	75
Profit margins	53	46	48
Pricing policy	52	42	56
Sales training	49	42	69
Export sales	46	21	10
Customer/product service	44	39	75
Product quality	41	39	50
Marketing research	39	58	69
Distributor/dealer relations	39	39	31
Inventories/physical distribution	39	35	17
Advertising themes	35	52	56
Regional selling and promotion	32	53	52
Advertising expenditures	31	56	58
Packaging	23	44	23
Other marketing overseas	22	12	17
Telemarketing	21	26	58
Number of respondents	109	66	48

Table 9: Emphasis on Action Programs: 1980 vs. 1989

Question: Which of the following are usually included in your marketing plans, and what does your plan contain with reference to them?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Decreased emphasis on:		
Advertising expenditures	46%	31%
CONSUMER PRODUCT MANUFACTURERS		
Increased emphasis on:		
Sales to major accounts	31	44
Decreased emphasis on:		
Pricing policy	54	42
SERVICE FIRMS		
Increased emphasis on:		
Field sales effort	61	73
New-product development	58	79
Customer/product service	58	75
Marketing research	55	69
Sales training	55	69
Sales promotion	48	75
Advertising themes	42	56
Profit margins	36	48
Advertising expenditures	32	58
Sales to major accounts	29	50
Pricing policy	23	56
Packaging	13	23
Inventories/physical distribution	3	17

See note on Table 5.

Table 10: Support Information Spelled Out in Detail

Question: Below are various other factors that some companies include in marketing plans, while others do not. Which ones do you include?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Forecast of market demand	80%	74%	40%
Market segmentation	78	86	83
Market share of leading competitors	75	66	52
Changing needs of customers	68	58	61
Technological trends	62	24	45
Competitive intelligence	59	45	40
Appraisal of risk factors	47	46	32
Changing distribution channels	40	52	42
Alternative strategies seriously considered	34	24	23
Environmental issues	31	16	38
Government regulatory issues	26	25	40
Product life-cycle analysis	26	15	17
Contingency plans, to be triggered if specified events occur	24	20	17
Postmortem on previous plan	24	11	7
Assigning product or service to position in some kind of portfolio management matrix	24	25	20
Number of respondents	97	61	47

Table 11: Emphasis on Support Information: 1980 vs. 1989

Question: Below are various other factors that some companies include in marketing plans, while others do not. Which ones do you include?

	1980	*1989*
INDUSTRIAL PRODUCT MANUFACTURERS		
Increased emphasis on:		
Market segmentation	56%	78%
Changing needs of customers	56	68
Technological trends	47	62
Appraisal of risk factors	35	47
CONSUMER PRODUCT MANUFACTURERS		
Decreased emphasis on:		
Government regulatory issues	38	25
Technological trends	39	24
Alternative strategies seriously considered	34	24
Environmental issues	29	16
Postmortem on previous plan	25	11
SERVICE FIRMS		
Increased emphasis on:		
Market segmentation	60	83
Technological trends	30	45
Product life-cycle analysis	7	17

See note on Table 5.

Table 12: Most Critical Problems in Preparing Plans

Question: Briefly, what do you see as the most critical problem or difficulty that a person preparing a marketing plan in your company has to overcome?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Hard to get consensus/cooperation	18%	5%	21%
Not enough time to prepare properly	16	18	7
Hard to make forecasts	10	8	0
Not enough useful information available	8	8	3
Top management unrealistic about goals	5	5	3
Plans not taken seriously enough	5	0	10
Not enough strategic thinking/direction	4	3	7
Market changes too fast	4	3	3
Not enough top-management commitment	3	3	3
Have to plan too far ahead	3	2	0
Company isn't market-oriented	2	3	14
Too much focus on short term	2	7	0
Inertia / resistance to change	1	5	3
Other	23	32	28
Number of respondents	98	60	29

Table 13: Main Shortcomings of Plans

Question: What do you consider to be the main shortcomings of your marketing plans?

	Manufacturers of		
	Industrial products	*Consumer products*	*Service firms*
Not realistic enough	19%	14%	11%
Not enough competitive analysis	17	5	7
Not specific enough	16	12	33
Not enough market information	16	16	11
Not taken seriously enough	13	9	15
Not enough strategic emphasis	12	14	7
Too much emphasis on short term	10	14	26
Not sufficiently up-to-date	9	18	7
Inadequate contingency plans	9	9	4
Inadequate performance measures	8	12	15
Not executed well	7	4	7
Not integrated with other plans	7	2	4
Not enough input from other groups	5	5	4
Not adequately communicated to other key groups	4	0	4
Not enough focus on customer	3	11	4
Objectives not well defined	3	11	15
Takes too much time and effort	3	4	0
Other	4	25	19
Number of respondents	93	57	27

Related Conference Board Publications

Creating Customer Satisfaction, Report 944, 1990

Decision-Support Systems for Marketing, Report 923, 1989

Getting Value from Strategic Planning, Report 915, 1988

Competitive Intelligence, Report 913, 1988

A Growing Role for Business-to-Business Telemarketing, Report 912, 1988

Commercial Development of New Products, Report 890, 1986

Competitive Leverage, Report 876, 1985

The Marketing Plan, Report 801, 1981

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845 Third Avenue
New York, N.Y. 10022

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R4105-78.5F 12/90

The Conference Board

Report Number 953

Computer-Based Sales Force Support

- *performance gains reported in productivity, account management and communications*
- *systems use improves customer relationships*
- *shifts in sales roles foster reliance on better systems*
- *laptop computers and more powerful software boost system effectiveness*

About The Conference Board

Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

To accomplish this, The Conference Board strives to be the leading global business membership organization that enables senior executives from all industries to explore and exchange ideas of impact on business policy and practices. To support this activity, The Conference Board provides a variety of forums and a professionally managed research program that identifies and reports objectively on key areas of changing management concern, opportunity and action.

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Printed in the U.S.A.

ISBN No. 0-8237-0399-1

Computer-Based Sales Force Support

by Louis A. Wallis

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Before coming to The Conference Board, Mr. Wallis served as a marketing consultant and researcher, performing client research on digital plotters, Computer Aided Design, and office automation.

From the President

This report underscores the continued importance to selling efforts of information technology. It extends the investigation that began in 1986 with the report, *Computers and the Sales Effort*. In these times of strenuous competitive activity and sensitivity to customer needs, the performance and productivity of the salesperson are on the leading edge of companies' efforts to improve service to their customers and preserve hard-won market positions.

Although many more companies now use these systems, a large number do not. For companies considering their use, the experiences of current user companies should help clarify the basic issues. The Conference Board thanks those companies who participated in the research, and the consultants and vendors who offered advice.

PRESTON TOWNLEY
President and CEO

Executive Summary

Better sales management—through control and feedback from the field—was the single most important benefit of computer sales support systems, respondents reported. Activities that computer sales support systems (CSS) improved and that contributed the most to selling performance were sales force productivity, customer account management, and communications between the field and headquarters.

In manufacturing companies, the top three CSS applications were customer account management, communications, and checking orders. In service companies, the top three were database activity, preparing proposals, and preparing presentations.

Higher sales force productivity was the CSS objective companies most often sought. Often "soft," qualitative results were accepted, as opposed to scarcer "hard" dollar results.

Companies report substantial success at attaining computerized sales system objectives. The median achievement level was 75 percent for companies with CSS in an operational mode and 35 percent for companies with systems in the pilot stage. (The operational group of responding companies had been operating systems for a median of three years; the pilot group operated for about nine months.)

Nearly all companies used multi-function task forces to develop new CSS, and nearly all began with a pilot program. There is a growing trend of buying CSS software instead of developing it in-house. Two-thirds of the reporting companies modified purchased software to meet their special needs. If they were to start over again, more than half of the operational group and two-thirds of the pilot group would use the same vendor.

One-half of the companies reported experiencing "serious" shortcomings with their CSS at one time or another.

The majority of CSS users can access marketing databases, but in one-half the companies they can also access manufacturing databases. Laptop computers are gaining popularity. In the pilot group, 53 percent of companies used laptops, while in the older operational group only 15 percent did.

Median CSS costs including hardware, software, training and upgrades, were $5,000 per user.

Comparisons with 1986 Report

Results of the present study differ considerably from the one done by The Conference Board in 1986 (*Computers and the Sales Effort*, Report No. 844). In the current study, 50 percent of the sample have CSS, compared to slightly more than 25 percent in 1986. The number and variety of applications have grown. In 1986, the average CSS supported eight applications; now more than ten are supported.

1989 CSS Applications Compared With 1986 Applications

	Percent of Companies Reporting	
	1989	*1986*
	Base = 201	*Base = 85*
Customer account management	63	31
Database inquiries	63	30
Word processing	60	39
Checking orders	58	46
Forecasts	53	37
Spreadsheets	51	30
Entering orders	50	50
Checking inventory	44	40
Time management	29	34
Prospecting	29	14
Reporting expenses	26	29

Previously, only 20 percent of the responding companies claimed that enhanced customer support was a result of CSS use—now nearly half make that claim.

Four years ago, nine out of ten CSS computers were desktop units. Increased laptop and portable use, however, has reduced that number to seven out of ten. In the newer pilot programs, half the units are laptop computers.

New devices such as modems, telefax, and cellular telephones were scarce four years ago, but are now taken for granted, adding to CSS user support.

Competitive intelligence is the most often planned future application for CSS, but current usage is low.

Introduction

This report extends the inquiry into computer support for sales forces which began in 1986 with The Conference Board Report *Computers and the Sales Effort.*[1] The abbreviation "CSS" will be used throughout this report to describe computer sales support systems.

Since the earlier report, a great many anticipated developments, such as more powerful hardware for lower prices, better software, additional applications, and communications networks, have occurred. Unexpected responses turned up as well, such as a lack of emphasis on "competitive advantage," apparent acceptance of "shadow" productivity gains instead of hard dollar alternatives, and a pro forma approach to demonstrable dollar payback.

A competitive advantage is not always evident, although it no doubt exists. It wasn't widely sought as a hoped-for benefit. Positive results are nevertheless here: productivity (broadly defined), quicker response to customers, better communications with the field, and vastly more information conveniently available to field forces. Operational flexibility, although not widely reported, was another gain that was valued highly. The ability to reorganize, reassign, and redirect the sales effort when necessary was perceived as an important tool.

Saving time can result from salespeople's use of support systems, but several companies reported the opposite—increased administrative time because of system use. The reason: salespeople were gathering and processing information on-site that formerly was forwarded to a central processing location. Because the overall productivity of marketing benefited as databases were updated more quickly and accurately, mailing campaigns were more effective. Companies that reported this felt the effort was worthwhile.

Because the character of selling is changing, the integration provided by sales support systems becomes very valuable. Selling is a more interactive process because buyer-seller relationships have become more expanded in terms of the product development cycle; customers and providers work together beyond the actual sale. Upstream, before the sale, they are linked by consultation and advice, the ongoing process that includes design assistance, the exchange of technical data; and linked downstream in the form of service, maintenance, performance upgrading, etc.

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[1] Louis A. Wallis, *Computers and the Sales Effort*, Report 884 (New York: The Conference Board, 1986).

Method

This report is based on a survey sample of 285 sales and marketing executives who answered an initial or follow-up mailing to 1,100 companies or company components. Thirty or so companies were interviewed by telephone (half were follow-ups of questionnaire respondents and half were new respondents). Fifty percent responded for their entire company and 50 percent for an operating component. Eighty percent were manufacturers and 20 percent were services providers. There was a 50-50 split between consumer products and services and non-consumer products and services. Median annual sales for reporting organizations were approximately $230 million.

Number of Salespeople and Distribution Methods

The median size of direct, outside sales forces in companies using CSS is 75 persons. The range extends from 20 in the first quartile to 300 in the third. The assigned customer accounts spanned an assortment of users, OEMs, and distributors. Of the 285 responding organizations, 230 had direct, outside sales forces; 123 had inside sales forces; 91 used manufacturers reps; and 89 used telemarketing. Of the direct sales force, 19 percent sold only to resellers; 24 percent sold only to users; and 34 percent sold to both users and resellers. The remainder were "no answers."

Size of Direct, Outside Sales Force

	Number of Salespeople
25th Percentile	20
Median	75
75th Percentile	300

Number of Salespeople in each Company Using CSS

	Number of Salespeople
25th Percentile	12
Median	35
75th Percentile	300

[Sixteen responding companies had sales forces of 1,000 or more.]

Respondents divided into four groups: 138 had fully operational systems; 63 had pilot programs; 39 were in a planning stage; and 45 respondents had no system of any kind described by the questionnaire. The 201 companies with functioning systems supplied the bulk of the information in this report.

Terminology

The survey questionnaire defined CSS as follows: "This survey is about computerized sales support systems. Such systems are designed specifically for sales forces and their managers. They can differ from company to company, but many share common elements. Ordinarily, salespeople actively use them in their daily work. Frequent uses include entering orders, tracking customer accounts, retrieving price and product data, reporting on sales calls and the like, plus personal tasks such as word processing, spreadsheets, and voice and data communications. Sales support systems employ a variety of computer types, but laptops are often used outside the office."

"Sales Information Systems" was the name companies chose most often to describe their sales support systems—chosen by 29 percent of the companies. (Use of the term "Sales Support System" in the questionnaire definition may have stimulated this particular response.) Some of the more imaginative titles were: CLASS (Customer-LTV Advanced Sales Services), FASSST (Fully Automated Sales Support Systems), and ASSET (Automatic Sales and Service Enhancement Technology).

Terms Companies Use to Describe Sales Support Systems

Base = 240	
Sales Information Systems	29%
Sales Support Systems	21
Sales Force Automation	13
Computer Support System	11
Computer Sales System	5
Sales Lead, Prospecting Systems	4
Other	22

Changing Sales Roles with CSS

Psychologist Larry Hirschhorn describes the subtle but important shifts taking place in selling today:

> The post industrial milieu is particularly stressful because it progressively integrates a once-fragmented division of labor, forcing workers to take account of many more facts, people, and claims. It becomes harder to ritualize work and reduce it to a set of regular procedures and formulas. When I studied an information services company, I saw how once simple selling jobs were becoming more complicated and anxiety provoking. The company sales force in the past had simply sold bibliographies to librarians in organizations with large research units. But as competition grew and computers made it easier to create specialized bibliographies, the company found that it had to develop custom-made bibliographies of scholarly articles and books for particular academic disciplines and researchers. Moreover, they discovered that the researchers increasingly wanted to search for references using computer-based tools.
>
> This shift in demand complicated the sales task. Instead of selling a fixed product, the salesperson had to work with the customers' researchers, information specialists, and librarians to design a specialized product. The sales process was broadened to include such activities as investigation, design, and negotiation as the product was increasingly coproduced with the customer. Moreover, the salesperson had to interact more intensively with the production specialists in her own company to make sure that they could provide the requested services. The old sales call was transformed into a riskier design-and-negotiation process. By entering more deeply into the customer's world, the salesperson integrated producer and consumer by knowing much more about each.[2]

The Shifting Information Power Balance

Salespeople working in today's marketing environment must have powerful tools at their disposal in order to work effectively with newly "information-affluent" customers. Scanners at retail check-out counters generate enormous amounts of valuable data, and manufacturers' sales representatives are encountering growing numbers of retailer customers whose formidable array of information resources rivals their own. This decisively contrasts with the past unidirectional flow of vital market data from the manufacturer to the retailer.

Now the information is "pushing back," one manufacturer said, as retailers generate their own information about sales volume, brand shares, and other marketing data. The information provided by suppliers no longer gets automatic customer acceptance; it's subject to discussion, interpretation, and validation.

The kinds of information available to the manufacturer's salesperson on a capable CSS are described by one manager whose company calls on retail stores:

> We're concentrating on quality and service, and getting away from the mundane information—we're now reporting only customer-useful information. We will have very few canned reports—and they are not designed to check up on people but to spot trends and help our customers see that we can provide value-added. We will be totally customer oriented.

The salesperson is increasingly the "point person" who presents to the customer the combined efforts of separate company functions: product development and design; advertising, merchandising and promotion; R&D and manufacturing, etc. In some instances, this is done by building customer relationships, acting as a consultant, and even "coproducing" the product with the customer. As more customers pare their supplier lists (as Xerox has done—from 5,000 to 300), stronger customer-supplier bonds will develop. The customer-manufacturer contact intervals go beyond the sale itself, both backward and forward. Contact is continuous, not only at the time of the sale, but before that, in design assistance and cooperation, and later, through service and follow-through. As one manager described it:

> Customer focus in 1990—that's the goal. We want to help the sales force interact more constructively with customers.

---

[2] Larry Hirschhorn, *The Workplace Within: The Psychodynamics of Everyday Life* (Cambridge, MA: MIT Press, 1988), p. 6.

> We want to get beyond just the "sales system" and focus on customer results. People in my company want to automate call reporting and expense reporting, but I'm not interested in that. You're just imposing data entry chores on the field—not improving selling. Building sales is the key, not just getting information back to headquarters so people can analyze it.

Commenting on a survey identifying salesperson traits that are important to the customer, an executive of a CSS systems vendor said there was common agreement that, from the customers' standpoint, a salesperson's responsiveness was the most important trait, followed by product knowledge.[3]

In addition, some companies look to their salespeople as business managers who must assume some profit responsibility for their assigned customer accounts. Simply reaching sales quotas is no longer enough. These higher order, or managerial, kinds of responsibilities will not yield easily to conventional salesperson productivity measures such as "two more customer calls per week," or "sales are up 5 percent per person." Changes, however, can provide benefits as solid as productivity gains. New contributions can emerge from the CSS systems that are apart from a simpler "productivity" measurement. A typical respondent viewpoint on the sales force productivity benefits of CSS was: "You just have to believe it's going to happen, and avoid spending the large amount of time and effort documenting it. Get the results first."

Also, an objective effort to quantify productivity cannot take into account only the time spent eye-to-eye with customers. Occasionally, the ten minutes spent searching a database in order to anticipate a customer's questions at an upcoming meeting may be the most productive interval of one's day. Some scholars in the field (Quinn, etc.) say that even manufacturing companies will find that, as they strive for competitive advantage, a growing proportion of their output characterized as "value-added" will consist of service-related activities that contribute to better customer relationships. A CSS can help foster these relationships. For example, a salesperson can match a customer's needs to product or service capabilities, while targeting company-to-company differences that enable the alert marketer to pull ahead of competitors.

This is also true when company representatives contact customers not to place an order, but to persuade, inform, and recommend. For example, a pharmaceutical salesperson can motivate a physician to prescribe his company's product even though the physician is not the actual buyer.

In a similar way, a construction products company representative calls on architects and developers, not to transact a sale, but to build future sales by informing and guiding those who specify construction materials. In one case, the sales are in fact handled by a separate selling organization in the company. The quality of this encounter is important. As one expert put it: "The frontline person's willingness to handle that contact with diligence and flair is often critical to success of the enterprise."

The Productivity Issue

The sales process in general is undergoing changes that need to be considered when examining sales force productivity. The concept of productivity must include the entire marketing and sales organization since their elements are increasingly intertwined and integrated.

Also worth examining is whether circumstances have altered the sales tasks: whether the CSS has created new opportunities for analysis and strategy formulation which may increase, rather than reduce, work for salespeople. This may become a plus to the marketing mission and, if achieved, may contribute benefits as valuable as productivity gains for the sales force. Some have called these less quantifiable gains "shadow productivity."

Commenting on such effects, one executive pointed out that "the classical measures [of productivity], such as sales per employee or time to process a customer order, fall short of effective measurement because they fail to assess the full value of the output. For example, a customer who learns an item is out of stock can immediately select an alternative." The system contribution in such a situation may be positive but hard to quantify. It's possible that this attention to customer's needs would fortify the supplier's image in the eyes of the customer and make it less likely that a competitor could gain an advantage without a strenuous effort.

Measuring sales force productivity may be considered part of a broader problem that continues to perplex corporate management. In a recent survey of CEOs, 83 percent felt that there are no adequate measurements for determining the return on information systems (IS). The survey also reported that future IS investments will be concentrated in sales and marketing, and in consumer contact and service areas. The executives saw failure to change basic ways of doing business and failure of employees to learn to use the existing systems as the biggest obstacles to successful IS use.[4]

With the increasing use of CSS, it's entirely possible that the sales force may spend more time in the office instead of less. At one consumer products company, salespeople used to spend one half day a week in the office, working on reports and customer accounts; now

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[3] Paul Morris, vice president, Envoy Systems, quoted in "Sales Reps Embrace Sleeker Laptops," *PC Week*, May 8, 1989, p. 12.

[4] "People Problems are the Biggest Hurdles," *PC Week*, October 23, 1989, p. 12.

Lynch, Jones and Ryan

Successful results in some companies begin and end with a clearly defined process—the sales cycle—which rewards those salespeople who use it faithfully and use it to structure all their selling activities. Such a system is well-illustrated by the institutional brokerage firm of Lynch, Jones, and Ryan, a Citicorp company in New York City. The Plan Sponsor Service division of the firm sells a service it calls a "commission recapture program" to the sponsors of large investment programs such as pension funds, endowments, and foundations. Quite simply, if a sponsor agrees to direct its outside money managers to trade through Lynch, Jones, and Ryan, the sponsor will receive a rebate on the commissions charged on these equity trades. There is no charge for the service other than the actual commission, and it comes as close as anything to the mythical free lunch, according to the director of the operation. (The genesis of the program was an entrepreneurial reaction to a U.S. Department of Labor paper that clarified several issues relating to ERISA funds, plus the esoteric concepts associated with the investment process.) Nevertheless, a selling effort is involved because a lot of information needs to be provided to prospective clients and three to five personal sales calls need to be made for each signed contract.

The vice president in charge of the system explains: "If you study any sales situation you find that an inordinate amount of time is spent identifying prospects. Once identified, you spend a lot of time developing adequate information about them, then you have to secure an appointment with the prospect, and structure the interview. You also need to be able to monitor progress of where you are in the sales cycle and do follow-up activities. We set out to design a personal computer product that would do this." The company wanted to combine a large database composed of the Money *Market Directory*, its primary source of prospects, and other databases that structured and monitored the sales process each step of the way. The system implemented does "about 80 percent of what we need done." The new system did not need modifications to work successfully in this application although Lynch, Jones, and Ryan was prepared to change its work processes to use the standard package. This decision was based on the desire to quickly get the system running.

The main output for clients is a 35-page, leather bound proposal. Because the process is computerized, a proposal can be produced quickly. "We have learned," the vice president explains, "that our sales cycle is about 135 days from initial contact to successful contract signing. We define success as four new accounts a month, per salesperson. We know that approximately 40 meetings a month lead up to that result, and three to five personal meetings are needed to close a sale. That's because, although the basic concepts are simple, it can take a lot of supporting information to make it sink in. Multiple contacts are necessary within a prospect organization, and if dealing with a public fund, salespeople must usually work with investment committees. In personal meetings we try to build trust and eliminate roadblocks to the sale. We don't actually 'ask for the order,' because if the process is faithfully followed, the outcome is obvious. The salespeople must spend much time on the telephone and about 50 percent of their time traveling. If they are willing to do this, they will succeed—if not, they will fail. We have learned this very thoroughly."

Management believes there is a straight line connecting activity and sales productivity—if the activity takes place, a sale will follow. "The computer support system makes it possible because you know what you have to do to reach your goal," continues the executive, "and exactly where you are each step of the way because there are mileposts, and progress reports are created along the way. Because the system is so inextricably tied to our work, it would be hard to envision it working without the computer system. From a management point of view, the system also provides useful tools for coaching salespeople. Their activities are plugged into the system, and their status on each prospect is apparent. What follows from what happened last is readily visible, and the quality of executing each step can be judged from one salesperson to another. The procedures are not canned, but scripted, and the whole thing works. It's like a circle—you can enter the process at any point, but you still must travel 360 degrees. The successful sales outcomes follow a predictable path, and this can be shared and learned by all."

they spend a whole day. This is "partly because of new demands we have made to get the information we need. Everybody has to participate or it doesn't work," explains the marketing executive at the company.

An executive at a large oil company expresses a similar view: "We originally wanted the system to provide salespeople more selling time with customers. But what it probably has done is add some administrative load because some associated support people were eliminated—the middle layer of people is going away. Electronic mail is partly the reason. So, it [CSS] has had a different kind of impact from what we planned. But the sales representatives have had to shoulder more work, and they realize this. Productivity of the whole system probably grows, but maybe not that of the salesperson. Another thing is that people in the company see the system in place and start wanting to add things to it."

Some companies feel that trying to measure salesforce productivity gains because of CSS just wasn't worth the effort—they were convinced of CSS's worth. Robert Arakelian, MIS director at Godiva Chocolatier, reportedly said: "Godiva's goal was to give its field personnel a tool to help them make better presentations, supply more information and be more helpful to the customer. We weren't looking for a hard dollar payback."[5]

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[5] "Laptops Leave Sour Taste in Sweets Maker's Mouth," *Computerworld*, January 29, 1990, p. 37.

Another question is, "Can CSS produce a paper-free sales office environment?" One executive responded:

> The CSS has drastically reduced paper output, but in this company it is probably still 50 percent paper. The 50 percent of the information that's on the computer probably has 80 percent of the useful information. We download many reports to laptops. Some reports are just too large to keep on databases. Probably not cost-efficient to go beyond where we are now. It will be possible for salespeople to not use any paper reporting if they don't want to. We will provide report formats, but they can customize reports any way they want.

Some companies simply reported that they were not interested in paper savings—even more paper might be used, some said, but they were not concerned about it. At James River Corporation, a paper company, the system is designed so that information and reports are generated by the day-to-day activities themselves and require no special "systems activities" to gain benefits of use. The company's salespeople will not have to report any information if they don't want to. "We'll be giving the salesperson more information than he gives us," claimed a marketing executive at the company.

General Foods USA

Although General Foods USA was willing to accept some "soft" dollar results and savings from its newly-developed CSS (called Force 90), as it examined the practices to be improved it also set ambitious goals for "hard" dollar benefits such as improving selling time by 25 percent and reducing administrative time by 50 percent. The administrative burden on the salespeople was between 15 to 30 hours a week. The 50 percent reduction depended on a 20 percent savings from territory analysis and competitive intelligence, 18 percent from just saving time, and 12 percent savings from communications. The number of SKUs (stock-keeping units—separate inventory items) is growing, and fewer people are doing more work. A large volume of important information was becoming outdated before appropriate action could be taken, and the communication process was too slow.

The Force 90 development team discovered 15 major categories of activities that offered the best potential for improvement. Three of the top ones were call reporting, trade deals, and communications including data transfer. Order processing is handled separately by Customer Service Coordinators. EDI is used only with large customers. Communications and reports received great attention, and developing standardized formats created reports on call reporting, account management, shelving and pricing information, trade deals, and (very important) time management.

GF has settled on the use of laptop computers, believing they are more versatile for communications and word processing. A communications package was in use before the current CSS software from Envoy Systems was acquired.

Many of the GF salespeople work out of their homes. They all have modems to use with the laptops and interface with the IBM PROFS communications package. Users typically log on the system once a day—before 8 a.m. or after 5 p.m., for example. The system is not on-line, but users still get an overnight turnaround on inquiries about a trade deal. Results from the system have been very encouraging. The communications system has a "Route-A-File" feature that allows binary file transfers from one computer to another, so that salespeople can exchange Lotus 1-2-3 types of data and graphics. If one sales rep has developed a graphic presentation another thinks might be useful, it can be readily transferred. Reporting lead time has been reduced by 3-10 days. Realigning territories, which used to be a very time consuming activity, taking weeks in some cases, now takes only several days. These important changes can result from customer changes, opening or closing stores, or salespeople leaving the company or retiring.

Hard savings have resulted from lowering communications costs (phone, postage, mailing, copier), and numerous soft savings have surfaced. Salespeople have a higher level of confidence in their information and have a greater sense of professionalism. They seem to be making more presentations, more business reviews, and doing work that wasn't done before, and they feel better about the decisions they make. Very important, the working relationship between sales and GF Information Systems has been smooth and productive.

CSS Objectives

At the heart of CSS lie the separate functions that salespeople do to accomplish their sales tasks. These are called "applications" in computer jargon; therefore, this term will be used to mean those functions that are harnessed to sales activities.[6] There may be some overlap in the list of applications shown, but this method helps us to visualize how a salesperson is supported by the CSS.

Applications for customer account management and communications are at or near the top for all companies using CSS. According these applications a high priority recognizes that salespeople accomplish their sales objectives by accessing and managing large amounts of information. For example, managing customer accounts comprises elements such as customer purchasing history, sales volume (and profitability, to an increasing degree), special customer requirements, key contacts at the company, buying influences, last date called on, and scheduled calls. Not only can the history of a single customer be accessed in depth, but a salesperson searching for sales opportunities can also compare the present customer's purchasing volume with similar customers' purchases to decide whether the review customer's purchasing potential is greater than its current buying would suggest.

Manufacturers employ marketing and selling programs different from those of services providers, and their separate CSS reflect those differences. Separate CSS applications are therefore shown for these two industries in Tables 1 and 2.

"Analyzing customer needs" turns up as an application at a high level of 60 percent in services companies and 43 percent in products companies. This might be expected because an intangible product such as an insurance policy doesn't exist until it incorporates benefits designed for one specific customer.

An application such as entering orders is subject to influences that may change its emphasis and use as it involves the sales force. Some managers have always felt that it was wasteful and counterproductive to use a highly trained salesperson as an "order entry clerk," because it could erode valuable selling time. It makes more sense, they would argue, to place order entry with lower paid, clerical personnel who may be more accurate be-

Table 1: CSS Applications in Manufacturing Companies

Combined operational and pilot groups.

Applications	*Percent of Companies Using*
Customer account management	66%
Communications	66
Checking orders	64
Database activity	63
Word processing	62
Forecasting	55
Spreadsheets	54
Entering orders	52
Checking inventory	51
Budgeting	46
Pricing	46
Presentations	45
Analyzing customer needs	43
Proposals	43
Reporting sales calls	42
Graphics	40
Product information	40
Time management	31
Reporting expenses	30
Prospecting	26
Competitive intelligence	22

Base = 166

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[6] The "applications" referred to here are separate tasks from the salesperson's point of view. This does not imply that, for example, "checking orders" is one isolated computer application and "database activity" another. From a systems point of view, both activities may use elements of the same database, or appear to the user to do so.

Sonesta Hotels Corporation

This brief system description illustrates how the vital effort of building and maintaining customer relationships—so essential in a service business—is supported by a CSS. The vice president of sales at Sonesta Hotels faced a problem of coordinating sales department information about meetings, conventions, tour groups and other functions with telemarketing and sales activity. He wanted to deal more effectively with collection and dissemination of information on accounts to salespeople in regional sales offices and to individual hotels.

For a large customer like the American Marketing Association with hundreds of meetings a year, there is a tremendous number of records that have to be available in different locations. Before deploying the CSS, there were problems with reporting and monitoring all this information on multiple clients, multiple meetings, and multiple locations in a month-end report. Information generally flows from outlying points to Boston headquarters, then is analyzed and sent back.

Before the company settled on a CSS from SNAP, Inc., it examined many different software packages but found most to be too inflexible for necessary customization. The systems judged unacceptable either grew from accounting systems, front desk systems or were made for product organizations—all inappropriate for Sonesta. The Vice President comments: "We needed a pure sales system rather than an add-on system, and those available were mainly developed for product manufacturers. Services are different—they are more complex; there are different kinds of sales to be made; and most important, there is a long-term rapport building with customers that is essential. There is a lot of "tracing" work to be done in hotel sales—future meetings, solicitations, schedule dates, deposits, floor plans, and room assignments. History is very important in building customer relationships and that is what we wanted. It gets very complicated." Customer information tends to be centralized, but centralized data on hotel units is not especially useful considering that rates and occupancy are constantly changing.

Telemarketing activity originates at Boston headquarters. To date, the system has worked well. "It is now much easier to identify and monitor the 20 percent of the customers at the core of our services, and office efficiency has benefited.

But I don't think you can look at any sales system in terms of cost savings. That's a mistake many managers make. How much money is saved is less valuable than what people can do with the time created." Monthly and quarterly reports on prospective business are generated, as well as data on business booked, lost business, canceled business, and all are available by sales region and market segment. Hotel units can use this information to help plan their activities. A plan is being considered to have the database available on a nationwide scale to allow all persons on the system to learn about and follow any customer contact.

Table 2: CSS Applications in Services Producing Companies

Combined operational and pilot systems

Applications	*Percent of Companies using*
Database activity	71%
Preparing proposals	69
Preparing presentations	66
Customer account management	60
Analyzing customer needs	60
Communications	57
Word processing	57
Pricing	54
Prospecting	49
Product information	49
Forecasting	43
Reporting sales calls	43
Budgeting	43
Spreadsheets	40
Graphics	37
Entering orders	37
Checking orders	34
Time management	26
Reporting expenses	20
Competitive intelligence	20
Checking inventory	9

Base = 35

cause they perform the activity full-time every day—and to free the higher-paid salesperson to concentrate on customer contact. In some cases, order entry systems were one of the first sales activities to be computerized, predating, by some years, the CSS. Having run successfully for years, some of these order entry systems resist modifications that must be made just to accommodate CSS. It may be important in certain circumstances for the salesperson to work with the customer to create an order; in these cases, entering the order simply concludes the sales process.

Order entry will also be affected in the future by systems such as EDI (electronic data interchange, a computer-to-computer communications system already used by one-third of the responding companies), especially between larger customers and suppliers. EDI eventually will have features that allow buyer and seller to be tied together even closer. Some respondents indicated that CSS will eventually work with their company's EDI system—if it doesn't already.

Thirty percent of the manufacturing companies, but only 20 percent of the services companies, use CSS for reporting salesperson expenses. This may be because services providers need to be in close contact with their clients, or contact them more often by telephone, and are less likely to incur out-of-office expenses.

Using CSS for pricing illustrates one of the biggest benefits of being able to manage and communicate a large volume of prices and price changes. A further benefit is in the form of "expert systems" which offer a degree of automation to complex pricing problems.

The pricing software used by 3M's Broadcasting and Related Products Division is an example. 3M's division was finding it difficult to quickly generate accurate prices for complex broadcasting equipment called routing switches. These products are assembled from many sub-components which create an enormous number of possible end-product combinations. Before the new pricing system, it took too long to quote a price—about two days for two pricing experts at headquarters to prepare a price for quotation—and there were too many errors. Salespeople and customers grew frustrated, and the process annoyed everyone. The new computerized system can prepare a price in a matter of a few minutes, is easy to use, and is available for use on personal computers. There is now global access to the system; even marginal prospects formerly shunned by salespeople can now get quick, easy quotes. "What if" options can readily be explored. In its first three years of operation, the new system delivered a 12 percent annual increase in the number of quotes, with no added personnel.

Setting The Major Sales Systems Objectives

Boosting sales force productivity and sales force effectiveness were the predominant objectives for the CSS. Four major fields emerge as the nucleus for all other functions of the CSS, no matter how complex it may eventually become: productivity, information, customer support, and communications.

In Chart 1, total responses are given by companies with operational systems and companies with pilot program systems. This division contrasts the older (operational) systems with newer (pilot) systems, and also contrasts complete with partial systems. The contrast occurs since pilot systems usually employ fewer applications, do not contain their full complement of applications, and have not reached their full operating efficiency.

Some CSS objectives that might have been expected from respondents were seldom mentioned: only 2 percent of CSS were installed to gain a competitive edge; only 1 percent to produce a "professional sales effort"; 4 percent to react faster; 2 percent to increase sales; and 4 percent to increase face-to-face selling time. However, since CSS are no longer "new" (having existed in various forms for at least 10 years), companies just now implementing them are no longer, by virtue of this alone, at the cutting edge of technology or selling sophistication, nor are they likely to achieve an unqualified competitive advantage with CSS.

Companies that pioneered these systems now have 5-10 years experience with them—a lead that cannot be easily eliminated by a competitive system just coming on-line. Perhaps more important is the growing acceptance of the belief that competitive vigor comes from the same place it always has—from satisfied customers who have bought quality products from a reliable, attentive supplier. Certain goals of marketing success seem to transcend simply adopting CSS in pursuit of competitive advantage in the abstract—notably the solid goal of building higher quality, longer-lasting customer relationships. The sales system that enhances that effort is on the right track, and these company-specific efforts may be much harder for a competitor to emulate than simply using a certain kind of CSS.

A notable difference between the responding operational companies and pilot companies is that pilot companies more often ranked productivity the number one objective. Pilot systems less often sought the objectives of preparing proposals and presentations, order entry, and generating strategies.

Desirable results such as customer satisfaction, better sales force morale, and more productive plans, to name a few, have normally been accepted as benefits despite their hard-to-quantify nature. (CSS goals that are hard to quantify but often desirable are sometimes called "soft" goals.) These "soft" goals are pursued in the belief that at some point the "hard" results (sales and profits) will follow.

Finally, management awareness of the balance between the still-falling cost of computing power and the still-rising costs of qualified salespeople has encouraged companies to deploy sales support systems.

Chart 1: Major Sales Support System Objectives

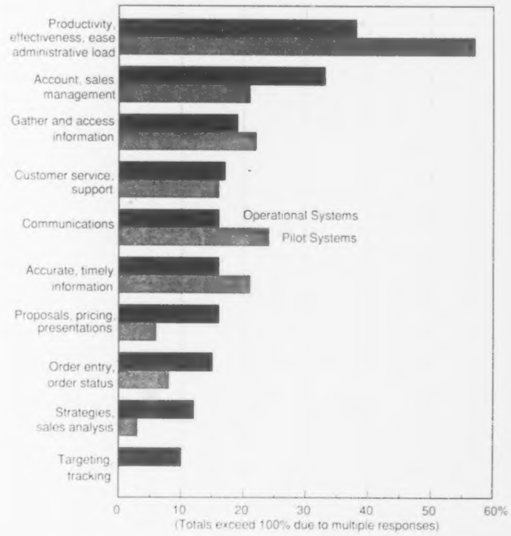


Table 3: Extent of Achieving CSS Objectives

Level of Achievement	*Operational Group*	*Pilot Group*
90+%	15%	0%
80	23	5
70	28	5
60	14	10
50	11	16
40	3	16
30	11	4
20	11	1
10	1	8
0	0	3
No answer	6	8

Success at Reaching CSS Objectives

Companies with operational (as opposed to pilot) CSS report considerable success in reaching system objectives (see Table 3). The median achievement level was 75 percent. Companies with pilot systems reported a median achievement level of 35 percent. This lower level may be the result of measuring progress toward yet-to-be-realized goals, including a partial complement of applications being tested, as distinct from the operational group which probably evaluated the system's performance with the full range of applications.

Activities Significantly Improved by CSS

The term "activities" attempts to convey more realistically than "applications" the tasks done by salespeople, because activities often combine applications. Customer account management, for example, may include such applications as accessing databases, communications, and report generation. Table 4 lists activities improved by CSS, and Table 5 lists activities that not only were improved by CSS but were also judged to have contributed strongly to sales results or selling performance. All items shown were ranked 1, 2, or 3 out of the list of "significantly improved" activities.

Somewhat puzzling are activities that were said to be "significantly improved" but were not perceived as contributing greatly to sales by the company. An example is "professionalism" of the sales force, which saw improvement in 57 percent of the companies, yet only 14 percent said it significantly improved sales or selling performance, and only 8 percent listed it as a benefit. At a time when the term is used haphazardly to describe many activities, the presumed benefit of being more "professional" may be in doubt.

"Competitive intelligence" also scored quite low as an anticipated benefit, and was one of the least used elements of CSS. It nevertheless was one of the top applications scheduled for addition to ongoing CSS.

Table 4: Activities "Significantly Improved" by CSS in Use

	Percent of Companies Reporting
Customer account management	66
Communications with the field	63
Sales force productivity	59
"Professionalism" of sales force	57
Customer satisfaction	46
Sales volume	43
After sale support	41
Customer presentations	41
Preparing proposals	40
Budgeting, goal-setting	37
Order-shipment cycle	37
Available selling time	35
Call reporting	27
Configuring products	25
Prospecting	22
Coordinating account teams	22
Sales calls per week	21
Reporting-controlling expenses	21
Competitive intelligence	20
Sales costs	18
Closing the sale	18
Reducing errors	12
No answer	34

Base = 138

Reduction of sales costs as a result of CSS use was not viewed as a significant accomplishment for most companies nor was it said to have made a valuable contribution to results.

Single Most Important Benefit of CSS

When asked to name the single "most important" benefit of using CSS (see Chart 2), executives named managing the sales force—control and feedback—followed closely by productivity, access to data, and faster response to customers. A few of the benefits that turned up—such as faster response to customers and more timely information—were not always sought when designing the system.

For reasons not entirely clear, some benefits that have been imputed to CSS ranked fairly low as realized benefits: "professionalism" of the sales force, higher sales, creating a competitive advantage, and providing more selling time for salespeople. Professionalism and higher sales ranked fairly high as activities that were "significantly improved" by the use of CSS, but in spite of this, they were not viewed as the "most important" benefits for the majority of companies.

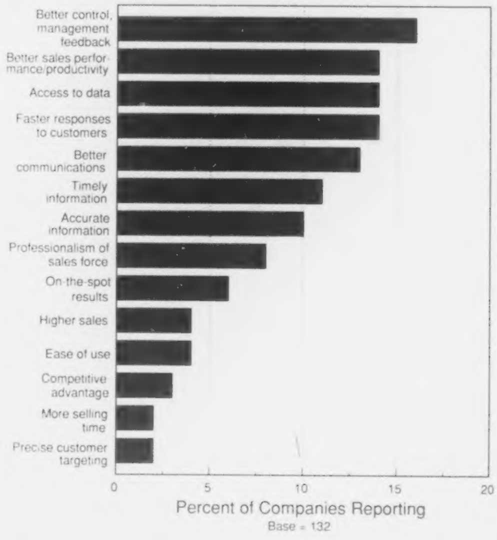
There were some instances of sales gains:

Table 5: Activities "Improved" by CSS that Contributed the Most to Sales or Selling Performance

	Percent of Companies reporting
Sales force productivity	36
Customer account management	32
Communications with the field	28
Preparing proposals	20
Customer satisfaction	19
Customer presentations	17
"Professionalism" of sales force	14
Order-shipment cycle	13
Sales volume	12
More selling time	10
Budgeting	10
Closing sales	7
Configuring systems	7
Prospecting	7
After sale support	7
Call reporting	7
Sales calls per week	4
Reporting sales expenses	3
Error reduction	3
Reducing sales costs	2
Competitive intelligence	2

Base = 138

Chart 2: Most Important Benefit of Using CSS



A petroleum company whose salespeople called on service station operators made it possible to answer gasoline pricing questions using economic data retrievable by laptop computers that could plot sales volume sensitivity to price changes based on past experience. The effect on profits at various price levels of gasoline could readily be estimated for the service station operator—and larger quantities of fuel could be sold on the premise that lower prices would stimulate demand.

A large trucking company was one of the first to provide databases which customers can access to determine the status of their shipments. Although it no longer has an "exclusive" on this, it does provide a salable benefit, and earlier it provided a competitive advantage.

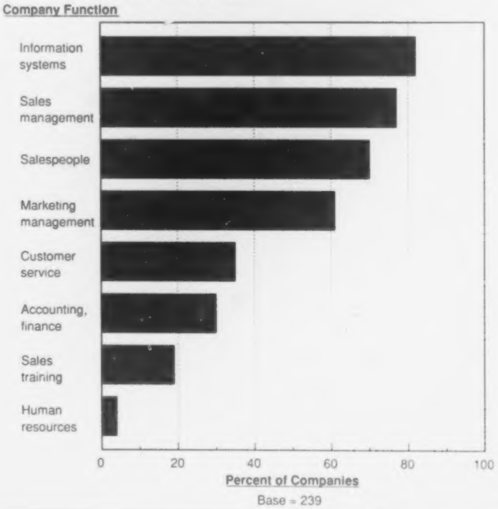
An industrial products company has what it calls "customer situation analysis" available on its CSS, which includes a variety of competitive intelligence. For each customer, salespeople are able to learn the total consumption of specified products from competitors as well as their own company and can map strategies to get a larger share.

Getting Started

Formal proposals for CSS often contain most of the following items: primary long-term objectives, intended performance applications, estimated costs and payout or recovery, scheduled checkpoints, and follow-up activity and method of evaluation. Most companies that have installed CSS for their sales forces have done so in stages. These have usually included:

1. Studying operating needs and setting broad goals;
2. Establishing performance objectives;
3. Preparing a formal proposal;
4. Establishing a pilot program for testing the proposed system;
5. Evaluating the pilot program results and making necessary modifications in the system;
6. Applying the system to the entire sales force.

Chart 3: Functions Participating in CSS Development and Implementation Task Forces



Use of Consultants

One-fourth of the respondents used consultants in a variety of capacities in setting up their CSS. The principal services were providing systems programmers, writing the programs, defining system requirements, and customizing the software for the user. A few companies used consultants to help select the software, for support tasks, and for smoothing the system introduction to the sales force users.

Use of Task Forces to Develop Systems

Eight out of ten companies employing CSS used task forces to develop and implement the systems. Chart 3 reports the functions represented on these task forces. It is surprising that less than a quarter of the companies included sales training and human resources people on their task forces, given the common wisdom that these systems function at full effectiveness only if they are well-accepted and well-understood by well-trained users.

Origins of CSS Software

Once a company decides to employ CSS, it must decide whether to develop the necessary software or buy it. Buying the necessary system software, as opposed to developing it, seems to be the current trend assuming that the practices of the pilot companies are more current (since they were developed more recently) than the operational companies, six out of ten pilot system companies bought their software, compared to the five out of ten operational system companies that developed their own.

Regardless of its source, nine out of 10 companies modified the software to better meet their needs. Some of the changes were made directly by the users and some were made by vendors for the users.

In the Conference Board's 1986 survey, systems were developed in-house mainly because software then available from vendors was likely to need major changes to meet company-specific needs. The anticipated degree of software modification was the key issue—and to some extent it still is—but emphasis now centers on the ease and flexibility with which software can be modified. Nowadays, changes in purchased software are seen as desirable and all but inevitable; only in this way will the system fully meet the special needs of the sales organization.

For some companies purchasing CSS software, one question went beyond the capabilities of the software itself, namely, the perceived willingness of the software vendor to modify its systems to accommodate a client. System purchasers believe this accommodation sometimes foretells the quality of future relationships. More than one respondent said that vendors failed to get their business because they couldn't accept the vendors' assurances that "we can meet your needs doing things our way."

Three additional factors encourage companies to buy rather than to build: (1) The capabilities of CSS system vendors have grown along with their experience in serving different clients. For example, some system vendors specialize in one particular industry with the result that a manufacturer can turn to a supplier with some assurance that its specific needs can be met. (2) There continues to be a shakeout of system vendors which leaves a remaining core of well-established and financially sound suppliers backed by such corporate giants as AT&T and Dun and Bradstreet. (3) Internal information systems departments' continuing backlogs of work, high internal development costs, and long lead times discount the virtue of self-sufficient corporate information systems. An extension of this "buy-instead-of-build" policy is the placement of a company's entire IS department with outside contractors—for example, as Eastman Kodak has done with IBM. On a smaller scale, buying CSS software may spring from similar motivations.

"Cheap" CSS software designed for one or a few users on PCs also deserves note. These small software packages were not usually taken seriously (still true for some users), but they have grown in usefulness and capability. While their performance cannot equal that of full-fledged, multi-featured systems, these PC programs can, in some cases, give a feel for what is possible with CSS within a company, and even satisfy some simple requirements. Some of the high-end system vendors even

Bank of New England

Financial services continue to make effective use of CSS to accomplish essential tasks that, while strictly speaking are not "marketing," manage the crucial relationship between service provider and customer. One is the Bank of New England, which has a strategic business unit devoted to serving affluent clients. The unit provides a full range of services which includes basic deposits, trust and asset management, and lending.

The Relationship Manager is the key person at the bank who needs to know all the services the bank has to offer (and even services outside the bank), as well as the special needs of each client. The primary goal of the system is to help the RMs manage their tasks and their time more efficiently, and to insure uninterrupted service to valuable customers and minimize or avoid disruptions caused by transfers or departures of officers from the bank. The goals were: to provide a real time management tool—a productivity booster; to improve the level of personal customer service; to "plug cracks" to insure that the investment manager knows what the trust officer knows, and vice versa; and to provide opportunity detection and follow-through—to be able to implement needs discovered. Few of the objectives were quantifiable. All were expected to add to the level of service, which was one definition of how to succeed in this business niche.

A common element in such developmental situations is the "technology champion," who believes things can be improved by adroit use of available kinds of support systems—and so it was at this bank. Management did not especially believe that by implementing a CSS it would be at the cutting edge of marketing or customer service, but it was convinced that without the system they would lag their competitors.

Getting all the essential decision-makers and users to commit to the idea and settle on the information needed was "not easy," according to the spokesman. A pilot program was begun in May 1989, and was only recently completed. To develop the new system, four groups at the bank were involved: business development, credit officers, fiduciary specialists, and investment managers.

The system chosen was one developed by Advanced Management Systems, Inc. Part of this program's appeal is described by one of the executives involved: "We liked the vendor for a lot of reasons, but most importantly, we wanted less of a sales management system and more of a relationship management system. Sales systems are driven by management's need to know what field sales is doing. We didn't want that. AMS allowed our kind of customization—we thought our needs were different and didn't want to be shoe-horned into a standard category."

So far, the system is working well. To ensure usage of the system, weekly reports were required to be done on the system. One thing has become apparent: simply because a computer system is used to "manage" a very sensitive relationship, the relationship is not completely "automated" or put on a conveyor belt. To the contrary, clients have been impressed by the the bank's awareness of personal details and specific conversations that are relayed to them. If done right, the whole thing becomes transparent to the user and the relationship is improved.

view these small packages as benign because they serve to whet users' appetites for "the real thing." These low-cost systems may also serve as a deterrent to overbuying with a more expensive system. They do this by teaching greater discernment and focus on the routines and features that are truly needed and productive so that a later decision to upgrade will more likely succeed.

Possibly the most dangerous outcome of underbuying a system can occur when a company exceeds the capabilities of the low-cost system. It may discover it has a huge investment in databases and training that makes the switching cost grow far beyond what it might have been.

Pilot Programs

Of the 200 responding companies with CSS, eight out of ten are using or have used a pilot test as a preliminary stage before complete deployment to the entire sales force. (Sixty-three companies reported currently being in the pilot program phase.) Sixty percent of the operational group tested all applications planned when they began their pilot programs, while 14 percent used only selected applications. The remainder did not specify which applications were tested.

Pilot programs are sometimes designed to be limited to a region or restricted to certain segments of the entire sales force. Occasionally, the pilot test will begin with regional managers or others with higher level duties than those of salespeople, while other programs have begun with the lowest level personnel and migrated upward as testing progressively removes the "bugs" from the system. The median age of pilot programs (see Table 6) in the survey was nine months.

Once the pilot program has started, it generally takes less than a year to fully deploy the CSS to the entire sales force (see Table 7). Some "pilot" programs are lengthier than others, since some companies consider the CSS to be in a pilot stage if it is deployed to less than the entire sales force, even if it has been working satisfactorily for many months; or if the total complement of applications has yet to be put into service.

For the most part, pilot programs serve as a "shakedown cruise" for full CSS deployment. Rarely are the programs canceled at the end of the pilot program. The decision to test a CSS, involving the purchase of software and hardware and training activities, is not a minor undertaking, so considerable deliberation usually precedes the decision. A decision against continuing deployment after a successful pilot program would likely involve constraints other than system effectiveness, such as lack of funds or an impending reorganization.

Table 6: Age of Pilot Programs

	Age
25th Percentile	5.5 months
Median	9 months
75th Percentile	12 months

Table 7: Time Needed for Full Rollout of CSS

	Time
25th Percentile	5-6 months
Median	10-12 months
75th Percentile	21 months

Reassessing Program Procedures

One consumer products company spokesman reported that after experience in developing and implementing its CSS, he learned that they had under-

Table 8: Systems Modifications - Operational Group of Companies

Modifications	*Percent of Companies*
Enhanced performance or capabilities	17
Improved or upgraded hardware	14
Made system more user-friendly	9
Refined or improved customer data	8
Upgraded software	7
Revised reports	4
Improved shipping information	4
Better or more product information	3
Improved databases	3
Improved communications	2
Improved budgeting or forecasting	2
Completely revamped system	2
Continuous, ongoing improvement	2
EDI	1
Competitive intelligence	1
Improved security	1
No answer	36

Base = 138

Table 9: Reasons for Switching Computers

	Number of Companies
Needed better performance, more power	14
To update technology	8
Switched from desktops to laptops	5
Switched from terminals to PCs	4
Needed lower cost units	3
Switched from IBM PCs to PC clones	3
Other reasons	7
No answer	25

Base = 69

estimated ongoing costs for such things as updated hardware and software and repairs when units are out of warranty. Problems emerged in some companies, in that opportunities for training presented themselves sporadically, or not soon enough after improvements became available to be able to implement them.

Several companies reported that greater efforts should have been made to get top management involved in understanding the systems and their capabilities, in order to get better system acceptance.

Modifications to Systems

Nearly two-thirds of the companies with operational systems have modified them in some fashion (see Table 8). For example, performance needed upgrading to suit new uses or a variety of users. In others, original equipment was worn out or provided marginal performance.

One-third of the combined operational and pilot groups of companies have switched to computers different from the units originally specified for the systems. The improvements sought are shown in Table 9.

Practical Pointers for Developers and Users of New CSS

If getting the new CSS up and running quickly has a high priority, the best bet is to buy the software or the entire system instead of developing it in-house.

Task forces work well to get the project moving; most companies use them. Get the sales force thoroughly involved in setting performance goals and be sure the system accommodates the way in which they do their jobs. To help assure user acceptance, get human resources and training people involved at an early stage.

Demand that new systems serve your company's way of doing business. Don't feel obligated to force your operation to fit one particular system because the vendor says "it has worked well for other companies." But don't expect a perfect fit between a vendor's system and your company's needs without adjustments. Don't expect a new CSS to succeed if it must overlay a problem-ridden sales organization. Fix problems first, and don't expect the new system alone to cure structural and organizational weak points. Expect the CSS to do some or all of the top five activities: using databases, checking orders, managing customer accounts, communications, and forecasting and budgeting.

Don't set your system goals by the ones that may have been important in the past or goals of other companies — carefully determine your real objectives.

Be prepared for higher than budgeted costs. Realize that projected systems costs can exceed budgets after a year or two of use in the field (especially if hardware warranties have expired), because active field usage may cause greater than expected wear and tear on equipment.

Don't expect system prices to fall significantly. While price-performance ratios for computer systems have improved, high performance is not cheap—and a "plain vanilla" system may not suit your needs. The price-benefit equation today more often means that you get more performance per dollar, and capable systems increasingly demand more power. Some CSS user companies have found that even two-year-old computers are worth replacing to get superior performance. Additional equipment such as cellular telephones and facsimile machines may benefit some CSS users.

Sales force productivity is obviously important but ripple effects can spread the benefits around, so an improvement anywhere in this chain may boost organizational performance. Today's sales mission succeeds to the degree that it integrates marketing and sales functions. For example, salespeople who use CSS may actually spend more time planning and forecasting (and less time "selling") because they now have proper computer tools, but this may save reworking by others and improve data accuracy. In another example: direct marketing campaigns may become more productive because field salespeople spend more time collecting and entering accurate information about prospects and customers on their computers.

Expect to make changes during the life of the system. One half of the companies surveyed experienced "serious" shortcomings with their CSS at one time or another. If the CSS doesn't change through extended use it probably isn't responding properly to your business.

Be suspicious of the belief that computer systems promote sterile manufacturer-customer relationships—it doesn't have to happen. In services especially, customer relationships can become responsive and personal without appearing canned or artificial. "Contrary to much popular dogma, well-managed service technologies can simultaneously deliver both lowest cost outputs and maximum personalization and customization for customers." [1]

Expect CSS payoffs in "hard" and "soft" dollars within two years. In about a year it should be clear where the system is heading. Salespeople should have accepted and used it, and at least some early gains should be apparent. Don't try to save money by skimping on training. It's false economy to spend hundreds of thousands of dollars on hardware and software, and then to neglect training, which strongly shapes users' attitudes and willingness to learn and use the systems. Users can make or break systems no matter how soundly they're designed.

Carefully balance your need for CSS security against potential benefits of sharing access to some databases with customers. Twenty percent of the responding companies do this now. If your company uses distributors, think about how they might benefit from your system and how they might adapt it for their use. But try to offer real benefits and don't expect an easy sell or a blank check from them—they may have already heard a similar story from your competitors.

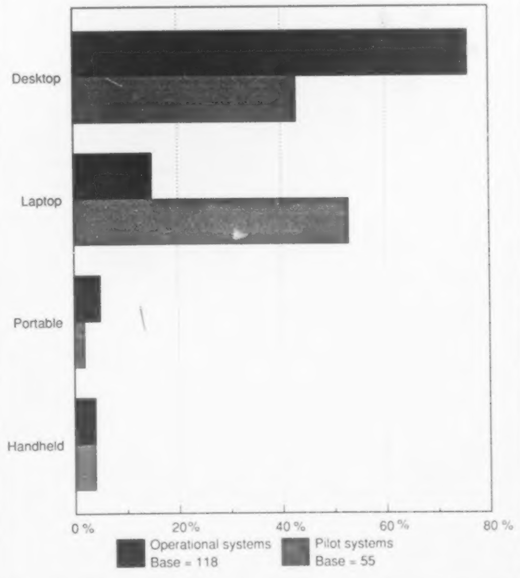
[1] James Brian Quinn and Penny C. Paquette, "Technology in Services: Creating Organizational Revolutions," *Sloan Management Review*, Winter, 1990, p. 67.

Characteristics of CSS

The newer, pilot programs are much more likely to use laptop computers than are older fully operational systems (see Chart 4). Fifty-three percent of the pilot operations use laptops compared to only 15 percent of the operational group. (One source estimates that 37 percent of all laptops are used in field sales.[7]) Three-fourths of the operational companies use desktop units, two-thirds of which are personal computers and one-third of which are terminals.

While not used by a large group of responding companies, handheld computers have grown steadily in performance capabilities from the limited-purpose UPC readers they formerly were. Many now are programmable in common high-level languages such as C or Pascal; have eight-line display screens; run MS-DOS operating systems; and have internal modems and multiple input-output ports. Handheld computers are especially favored for situations requiring high mobility: Frito-Lay route delivery drivers; Federal Express drivers tracking packages; and Otis Elevator service personnel. Motorola and IBM have just announced a joint venture to produce and market handheld computers that use radio communication with mainframe computers, thus eliminating the need for telephone linkages.

Chart 4: Type of Computer Used by Salespeople



As the array of computers and capabilities grows and CSS user companies gain experience, it becomes less likely that one model of computer will satisfy all needs. For instance, sales managers may use full-featured laptops that can manage the large databases resulting from combining data from sales territories for reports or planning; salespeople calling on stores may use handheld units mainly for entering data and may get output from desktop units back at the office; researchers at headquarters may use faster, more powerful desktop units for combining company data with proprietary market share databases, running large spreadsheet programs, and accessing the mainframe computer. Such an array of hardware choices will help to satisfy different needs and conceivably prevent a company from overspending on computer capabilities that are not needed.

Peripheral Equipment Used with CSS

Desktop computers are more likely to use printers than are laptop computers—75 percent reported using printers with desktops, only 37 percent with laptops (see Chart 5). And four out of every 10 installations had a facsimile machine available.

Age of Systems

The median age of operational CSS was three years; of pilot systems, nine months (see Chart 6). Some of the

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[7] *Business Marketing*, January, 1989, p. 60.

Chart 5: Computer Peripheral Equipment Used

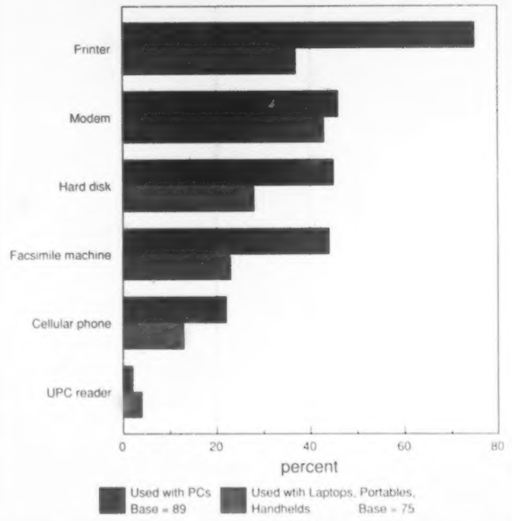
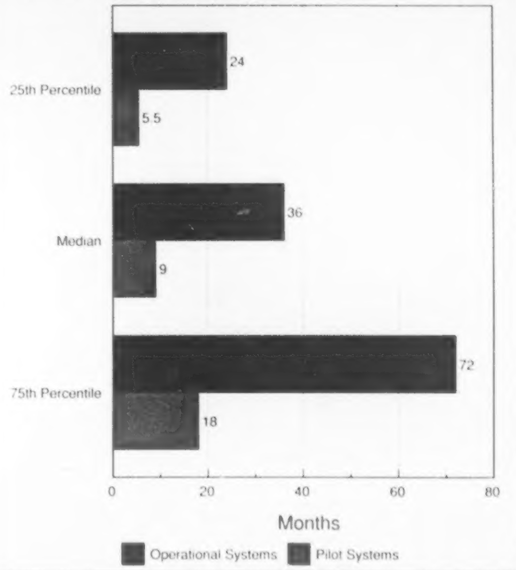


Chart 6: Age of Systems



operational systems were more than eight years old. Surprisingly, an estimated one-half of the CSS in the current survey did not even exist at the time of the 1986 Conference Board survey.

Exclusive Access to Computers

Only one-third of the present system users have computers exclusively for their own use. In the future another third will have their own computers and only one out of three companies will require users to share computers.

CSS Cost per Salesperson

Companies reported the median cost of CSS per person at $5,000, including hardware, software, training, and upgrades (see Table 10). The 1986 CSS survey reported the cost at $5,000-7,000. Even at the $5,000 figure, today's computers offer greater performance for the money. (The reader should bear in mind that this question was asked of a sales or marketing executive who may or may not have had the most accurate cost data on the systems.)

Table 10: Sales System Cost Per Salesperson

25th Percentile	$ 3,000
Median	5,000
75th Percentile	10,000

CSS Linkages to Distributors

Some CSS are closely tied to distributors and reach their full effectiveness only when this linkage is functioning well. For example, a small company selling specialized industrial equipment developed its own CSS and now offers it for sale to its distributors, along with training for the distributors' salespeople. Since all of the company's sales are through its distributors, it is essential that all salespeople use the CSS for the advanced kinds of marketing it wants to pursue. The company can now construct databases from key customer information supplied by the distributors and then execute precisely targeted mailings announcing new products. To assure coherent communications and eliminate misunderstandings, the display screens that distributors see on their computers are identical to those seen in the manufacturer's sales office.

Would a Company Use the Same CSS Vendors?

One dimension of companies' satisfaction with CSS is whether they would use the same vendors again if starting from scratch. More than half the total respondents said they would use the same vendor; and nearly two-thirds of the pilot group agreed. It might be inferred that the pilot group of companies, with their nine months (on average) of field experience (compared to the operational group's three years), have not operated their systems long enough to reveal all the CSS's weaknesses. An alternate possibility is that the "undecided" segment of the operational group has probably experienced growth and unanticipated needs and changes which could progressively degrade even an initially sound system.

Applications Planned

In manufacturing companies (see Table 11), customer account management is now the most used application, and another 22 percent of responding companies plan to implement it. Prospecting, on the other hand, is done by only 26 percent of the manufacturing companies, and another 16 percent plan to do it. Nearly any application of moderate usefulness will apparently grow to be used by at least half of all companies with systems.

This also means that the average number of applications for most companies will grow. (Operational CSS for each reporting company now run, on average, 10 applications.) Some of the planned applications increase the usage of already popular routines, while others will substantially increase the use of applications now only slightly used. Competitive intelligence is at the top of the list for planned applications but it is used by only one quarter or less of companies responding. The work done by the sales force in competitive intelligence is only one part of the monitoring effort in most companies, so it would be inappropriate to judge the scope of the activity by the scale of the sales force effort alone.

Table 11: Applications Planned but Not Yet in Use by Manufacturing Companies

Applications	*Percent of companies*
Competitive intelligence	27
Database activity	26
Communications/electronic mail	24
Forecasting	24
Reporting expenses	24
Time management, scheduling	24
Checking inventories	23
Entering orders, checking orders	22
Product information	22
Customer account management	22
Presentations to customers	22
Reporting sales calls	21
Graphics	18
Budgeting	18
Prospecting	16
Analyzing customer needs	16
Spreadsheets	15
Retrieving or preparing prices	15
Word processing	14

Base = 227

Table 12: Applications Planned but Not Yet in Use by Services Companies

Applications	*Percent of Companies*
Customer account management	26
Analyzing customer needs	24
Competitive intelligence	24
Prospecting	24
Time management, scheduling	22
Reporting sales calls	19
Entering orders	17
Graphics	17
Presentations to customers	17
Database activity	15
Product information	15
Reporting expenses	15
Retrieving or preparing prices	15
Word processing	15
Budgeting	13
Spreadsheets	13
Communications	11
Checking orders	9
Forecasting	7

Base = 54

In service companies (see Table 12), two of the most often used applications, customer account management and analyzing customer needs, are also the top ranking uses planned for the future. This seems to reflect still greater efforts at customer focus.

Database Access

Most of the CSS allow salespeople to access sales and marketing databases, but many also allow access to other company databases and external proprietary databases such as A.C. Nielsen and Dow Jones News/Retrieval (see Chart 7). There are few differences between the operational, pilot and planning companies, except that more than two-thirds of the companies now planning their systems intend to allow salesperson access to manufacturing databases—an increase over the current level of access. This may be evidence of an emerging trend toward cross-functional activities which are a necessity for true integration of company activities.

Future database access (see Table 13) for the salesperson is not significantly different from current access—that is, much the same kinds of databases will be used.

About one in five manufacturers allow selected customers to access internal marketing or other databases. Scarcely any companies allow all customers this privilege.

Chart 7: Databases Accessible to Salespeople

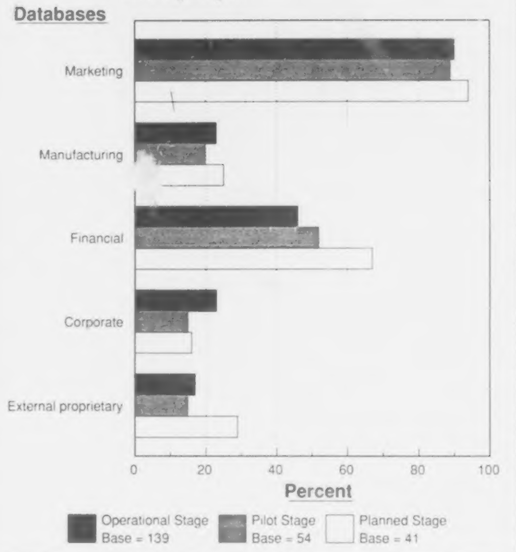


Table 13: Databases Salespeople Can Use in The Future

Database	*Number of Companies Planning to Use*
Financial	6
External proprietary	6
Sales and marketing	5
Corporate	4
Manufacturing	4
Client-prospect	3
Customer profiles	2
Competitive activity	2
Other	7

Do CSS Automate Selling?

Just as the use of computers in office work came to be called Office Automation years ago, a similar rationale describes computerized sales support systems as sales force automation. No term does harm, of course, as long as it is generally understood, but "sales force automation" does not seem to convey accurately what is done by CSS. For one thing, the truly "automated" elements of selling are most obviously the non-selling tasks such as word processing, spreadsheets, schedule keeping and others—which are supportive but ancillary, not at the core of selling. For another, the most demanding and creative aspects of selling are, in fact, listening, consulting, and persuading—activities that are more art than science and less susceptible to automation. A salesperson can conceivably earn an A-plus on the "automated" selling tasks and still perform poorly as a successful sales representative. Finally, there is little that is automated about the selling that takes place.

In the end, salespeople make a CSS succeed or fail by their willingness to use it and make it work—their behavior that can't be thought of as "automated."

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The Conference Board
845 Third Avenue
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R4105-78,6U 1/91

The Conference Board

Report Number 956

Human Resources Outlook 1991

Highlights are:

- *Sluggish, no-growth economy throughout 1991*
- *Continued rise in health care costs; managed care growing as means of control*
- *Variable pay systems spreading in spite of difficulties*
- *More environmental and occupational health regulation on the way*

About The Conference Board

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Printed in the U.S.A.

ISBN No. 0-8237-0402-5

Human Resources Outlook 1991

by Audrey Freedman

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1991 Human Resources Outlook Panel

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The Conference Board's annual meeting of human resources experts took place on November 8, 1990. Panel members discussed the current economic situation, compensation trends, human resources developments, and political events. This process provided the predictions for 1991 reported in the table on page 7. The views quoted were submitted by the participants in writing prior to the discussion.

From the President

For more than a decade, The Conference Board has issued an annual outlook for human resources managers of business enterprises. It attempts to look ahead one year, and more, in identifying and discussing the important issues that will challenge management in the near term. This year, for the first time, some observations about the unification of the European labor market have been included.

We thank the active and involved members of the outlook panel, who generously contributed their time and expertise to the undertaking.

PRESTON TOWNLEY
President and CEO

Executive Summary

The Conference Board's Human Resources Outlook panel expects economic stagnation will continue into 1991, with no recovery in the second half of the year. This view was not unanimous, however. At least one member expects recovery to begin in the second quarter of 1991; on the other hand, at least one member expects recession through the year. The panel projects a lower rate of consumer price inflation than currently prevails (Fall 1990).

Health benefit costs are expected to continue rising. There will be added pressure on coverage as the unemployed either lose insurance or find it hard to pay high rates while jobless. Nevertheless, a major political breakthrough is not expected.

Continued pressure for a Civil Rights Act is expected. The panel also anticipates considerably more regulation of environmental hazards, and of workplace exposure.

The panel offered thoughtful analysis of the role of supervision in a time when first-level workers have more autonomy, and must use more judgment in performing their jobs. It also discussed the uses of variable pay, its successes and limitations. When variable pay is linked to an individual's or a team's output performance, great difficulties arise in adequately identifying and measuring that output. Often, factors outside of employees' control may adversely affect their variable pay.

Within a no-growth economy, the panel considered possibilities of more struggle between groups of economic competitors in the society of the 1990s. The meliorative role of corporations and human resources managers was proposed.

Two brief sections discuss several aspects of integration within the European labor market as 1992 approaches. The subject of labor market integration in Europe is important to U.S. companies operating internationally.

Human Resources Outlook 1991

Amid some gloomy but unclear statistics on the overall performance of the U.S. economy, the Outlook panel considered whether stagnation has developed into decline at year-end 1990, and how long this weakness will continue. As always, the economy remains an inescapable setting. However, more effective use of human resources remains the only route to economic growth and competitive advantage. Therefore, much of the following report covers management initiatives that suggest progress, even in the face of a dull economy.

Perhaps extraordinary efforts are impelled by economic doldrums. If so, it would mean that 1991 will be a year of rapid and systematic management tightening, and therefore great productivity improvement. One panel member, Mitchell Fromstein, commented that flaws in management of both business and public life have become recognizable in recent years. This, he said, creates opportunities for movement and reform.

Nevertheless, the outlook is subdued, though not acutely pessimistic. Gene Remoff observed:

"In any event, 1991 is not going to be a fun year. I hope that some issues that require sustained attention from human resources practitioners don't get shunted aside. We need to get U.S. managements and organizations better positioned and engaged in:

- competing in global markets
- striving to improve further the quality of our firms' product and service offerings
- pressing for better education of our young people
- better recruitment, selection and training of the new work force, and help them address work and family conflicts
- developing more leaders, not just managers

"I just outlined the major topics of the *1990 Human Resources Outlook*!"

This comment raised an interesting point. All of the panel members were concerned that today's economy might cripple the efforts of management to address the needs discussed in the *1990 Human Resources Outlook*. Everyone observed that last year's suggestions still apply. If anything, they are more important in times of uncertainty because they offer opportunities for reconstruction and industrial vitality.

Overall Economic Outlook

The panel clearly expects 1991 to be a year of continued economic stagnation, in which unemployment will remain about 6 percent all year (see table below). This view was conditioned by uncertainty about the worldwide effects of a volatile situation in Iraq and Kuwait; it was not a consensus view, as can be seen from the wide divergence of predictions about the unemployment rate shown in the table. Several of the panel members are quoted on this point below.

Forecasts for 1991 by The Conference Board's Human Resources Outlook Panel

	Median	*Range*
Increase in employer costs for wages & salaries in private industry	4.0%	3.4 to 5.7%
First-year wage and benefit increases in major union contracts	3.8	2.0 to 4.9
Increase in labor costs per unit of output in manufacturing	1.9	1.0 to 4.9
Rate of inflation (average increase in Consumer Price Index)	5.9	4.0 to 7.0
	Unemployment average during 1991	
First quarter	5.9	5.6 to 6.7
Second quarter	6.0	5.5 to 7.5
Third quarter	6.1	5.4 to 7.6
Fourth quarter	6.0	5.2 to 7.4

Audrey Freedman
The Conference Board

The outlook for inflation is modest, once the effects of an oil price jump have worked into most parts of the Consumer Price Index. For example, the panel expects the general wage level (as expressed in the Employment Cost Index for wages and salaries only, excluding benefit costs) to rise about 4 percent or less. For union contracts, the rise will be considerably less, because benefits account for much of any overall increase in total compensation and are included in the panel's prediction. The underlying push of unit labor costs is expected to be less than two percent, with wide variation among panel members. This low rate of increased labor cost suggests that productivity increases in manufacturing will moderate the cost-push effects of wage increases.

All of this is consistent with a view that there are no inflationary pressures in this stagnant economy. To be sure, gasoline and heating oil have already driven up the CPI (Consumer Price Index) by October 1990. In the next few months, higher transportation costs will affect the price of goods, notably food. Other than the spreading of oil price increases, no other pressures are at work—and the economy is certainly not overheated. This is why the panel expects a rate of consumer inflation (5.9 percent) lower than that of late 1990: 8.9 percent in the three months ending in October 1990.

The divergence of views and the amount of uncertainty about the overall economy as it relates to human resources merits fuller quotation. Alan Ewalt said, in some exasperation:

"We've finally done it—talked about a recession so much that we have ginned one up. It is clear to most of us that the rate of economic growth is very low and that a continuation of the present slow deceleration is easing the economy into a period of recession. Perhaps a bigger question is: Are we entering a worldwide recession? Japanese banks are pulling in their horns. The Japanese stock market is down about 25 percent. Eastern Europe is trying to get its act together, while Russia flounders in its own sea of economic woe. Worldwide demand is slackening. The U.S. economy may simply be reflecting a broader global slowdown.

"Notwithstanding moving into a recession, chances are it will be relatively mild. For example, heavy layoffs have not taken place (except in aerospace). Unemployment numbers, although increasing, have not shot up at a rapid rate. Inventories, which typically are at very high levels entering a recession, are, with the exception of retailing, at moderate and controllable levels, thus suggesting that potential reductions in force would be more moderate than if these inventory levels had been dramatically higher."

Dan Mitchell suggested the possibility of continued stagnation in October, yet by the November 8 meeting he had changed his mind and offered the most pessimistic view of any panel member (he was at the high end of the range on the unemployment rate). His October analysis of the reasons for wage moderation is important for human resources managers:

"My gut feeling is that with a largely nonunion labor force and rising unemployment, the Fed should not assume that the oil price shock will somehow factor into an ongoing wage-price spiral. Who will force nonunion employers to mark up wages over prices, when the same employers (unless they're in the oil business) are being squeezed by the same energy price increases? In the 1970s, there were two kinds of international reactions to oil shocks. There was the Japanese reaction, which basically amounted to 'accepting' the real wage loss when external prices rose, and the European approach of trying to preserve the real wage. The Japanese approach produced a relatively short and shallow economic pause; the European approach produced chronic high unemployment and sluggishness. Between the two extremes was the United States. Our economy has probably shifted more toward the Japanese model since the 1970s. But does the Fed know it?

"In short, prosperity is not around the corner."

Daniel J.B. Mitchell
UCLA Anderson Graduate School of Management

Rex Adams pointed toward the credit and monetary aspects of the economic cycle:

"The real economy is not doing particularly well and there is more downside risk than upside potential in the near term. On the plus side, in the U.S., exports have held up well as the dollar has weakened, the agricultural sector has come back strongly, employment, while slipping, has generally not fallen out of bed, inventories are in excellent shape, and consumers haven't panicked yet. But, negative factors are also in play and they are troubling.

"We're in a bind with regard to both fiscal and monetary policy. On the monetary side, the U.S. already has the lowest real interest rates among the G-7 nations and the dollar, in consequence, has already fallen sufficiently far to give rise to renewed concerns about inflation. On the fiscal side, a $40 billion cut in the deficit in the first year is not much and may not even materialize. So, I don't expect much near-term stimulation to domestic capital formation from that source, and what relief we do get is likely to be more than offset by a reduced willingness of foreigners to hold dollar assets.

Rex D. Adams
Mobil Oil Corporation

"Foreign portfolio managers cannot have been inspired by the shambling charade of economic management they have just witnessed from our lawmakers and, in any event, may have more pressing things to do with their capital. The Germans, in particular, have ambitious and very costly undertakings in the East to finance. The Japanese have suffered an erosion in both real estate and securities values at home that reduces the amount of disposable capital available for investment in the U.S., and they have already got a sizable and unhappy financial exposure in depressed U.S. property markets. And everybody needs more money to finance the oil price surge, for as long as that problem exists, with particularly severe consequences for the Third World countries, who will have to get some kind of financing from somewhere. So where will the capital come from to fuel the productivity growth the United States needs to maintain economic momentum and enhance our global competitiveness? It will have to come from a high domestic savings rate achieved through reduced consumption, which in the near term must necessarily prolong economic stagnation or precipitate recession. In my view, the sooner consumers stop spending and start saving, the better, and a mild recession would be worth the price.

David Lewin
UCLA Anderson Graduate School of Management

"I expect about a year of flat to mildly negative growth, which doesn't particularly concern me if it prompts some increase in the domestic savings rate, but longer term I worry a lot about the pace and efficiency with which U.S. industry can marshal adequate capital resources to maintain a globally competitive position."

David Lewin expressed the "mild recession consensus." He distinguished among regions and also, to some extent, industries, in his outlook:

"Several factors are pointing to an economic downturn in 1991. These include slowing productivity growth, rising unemployment, anticipated higher marginal federal income tax rates, declining levels of housing starts, higher energy prices, changes in financial reporting to account for future increases in retired employee's benefit costs, and increases in state and local government taxes and tax rates. The combination of these factors is very likely to produce an economic downturn for 1991, perhaps extending into mid-1992.

"I do not anticipate a severe downturn, however, because of certain offsetting, even expansionary, forces. These include an accelerating rate of technological change, continued movement of foreign capital and labor to the U.S., accelerated investment and production in the U.S. of goods and services by foreign-owned and operated enterprises, sustained initiatives to combat rising health care costs, notably cost-sharing among employers and employees, heightened use of market and market-like incentives to provide 'public' services, continued efforts at deregulation, including in the telecommunications and utility industries, and higher than anticipated levels of defense spending.

"There are rather strong prospects for a reappearance of economic growth in the Southern and Southwestern regions of the U.S. and for economic decline in the Northeastern region—comparable, perhaps, to events of the mid-1970s to mid-1980s. The Midwest will not suffer economic decline, and may in fact experience modest to substantial economic growth, as foreign-owned enterprises

Gene R. Remoff
ARA Services, Inc.

continue to view the Midwest quite favorably from a direct investment point of view. The Western region may reflect some of the same characteristics as the Northeast, notably rising tax rates; however, its relatively younger infrastructure and capital stock should lessen the downside impact relative to that in the Northeast."

Gene Remoff found some possibilities for good outcomes. The idea of correcting previous mistakes also appears in his discussion of profits and dividends:

"My view, largely influenced by the behavior and expressed expectations of operating executives with whom I am in contact, is that our economy in general is going to remain stagnant, perhaps for as long as two years. If there is a downturn it will have a modest impact reflected in a move upward in unemployment to 6 or 6.5 percent and no growth in GNP.

"In 1991, we are, of course, going to see less of an effect on recession-resistant businesses that sell essential goods and services to institutions, government and social service agencies that are themselves not sensitive to near-term changes in business conditions.

"There are also businesses that are reporting significant reductions in profits and dividends that in retrospect had no reason to offer such high returns to their investors. The best examples are many banks that have now lowered their dividends to a level that equates better with the risk/return ratio one should expect from investing in a conservative financial institution (which is what more banks are now returning to being).

"As an HR practitioner, my own sense is that corporations are more likely to take a hit down to a lower (but still positive) level of return on investment, that investment in higher risk or longer-payoff ventures may slow or be delayed and that only limited variable expenses in direct labor and already minimal inventories will be reduced to correspond with the leveling off of sales activity.

"Some firms, less burdened by debt than highly leveraged competitors, may actually gain market shares as such shaky competition withdraws from marketplaces that don't give them needed cash flows. In some cases, they may seek to sell off assets.

"Additionally, privatization (i.e., conversion of government-run agencies and institutions to private contractors) will also add newly accessible market opportunities for some firms, particularly in the services sector. This possibly includes everything from postal services to refuse collection, operation of sports and recreational facilities, correctional and health care institutions, and domestic military base services."

The odd man out on economic outlook was Mitchell Fromstein. Briefly, he feels that we have been experiencing recession in 1990, and that 1991 will begin to show recovery. This view was based on the activity of the temporary help industry, which he and Dan Mitchell both consider an important leading indicator for the entire economy:

"For the sake of providing a totally contrarian point of view (and because my untrained sensors tell me so), I am going to pass up both of your options and postulate that 1991 may, in fact, be a year of 'upturn.' Understanding that you need a recession before you can have a 'recovery,' I submit that 1990 was a recession year—the impact of which was masked by regional variations, a lack of the traditional over-employment and wage inflation, and the Federal Reserve policy of interest rate containment. Nevertheless, major East and West Coast market centers, particularly in the Northeastern and North Central regions, suffered classic recession conditions caused by over-employment, wage inflation, and property value inflation. A combination of these 'selective' regional recessions and the lack of a real 'boom' in other regions, produced, in my opinion, the stagnancy which characterized the U.S. economy as a whole.

"The arguments for a recession scenario are clearly evident. Employment (new jobs) is down while unemployment is up. In both instances, however, the changes are marginal and, to date, are well within the parameters which our firm's projections anticipated. Consumer confidence is low but consumer spending remains at a level which is far from recessional in nature. The consumer may be cautious but she/he has yet to retreat from the marketplace. Every business executive is worried but capital spending plans remain as they were early in the year. Credit is tight but the economy is awash in chaos and reasonable borrowing requests are being aggressively met by financial institutions who are not impaired by flawed lending practices of the 1980s. Interest rates have not risen perceptibly but neither have they fallen. The U.S. dollar is weak but that condition has made U.S. exports uniquely attractive to foreign buyers. It appears to me that the classic structure of a recession pattern is not in evidence.

"Now, let me move to a more parochial approach to support my contrarian view. It is based on a set of conditions which I know very well firsthand rather than what I read. The U.S. operations of Manpower Inc.

have a long history of mirroring economic trends and conditions. A retrospective analysis of the average daily number of worker hours from our customer billings indicates that our trends lead the economy both into and out of economic downturns. At the moment, these trend patterns are clearly showing 'recovery' (i.e., they say we've had an 18-month decline from a top which reached bottom in March or April of 1990 and the trend has been rising since that time). The trends are particularly upward in the industrial (manufacturing) sector and flat in the white collar and service sectors. Once again, these are classic conditions of previous slump and recession bottoms. Our advance 'bookings' are as strong as they have been in the past and, while everyone is cautious, the level of interest in additional support workers is very good.

"I will make my guess on this basis and hope that we are not having false labor pains.

"My hedge concerns the Mideast crisis which I believe simply added a new uncertainty that caused a psychological imbalance in an already fragile situation. If we have war, I cannot predict its impact.

"On balance, here is my prediction. The fourth quarter of 1990 will be a mess, with everything looking grim and black and declarations of recession abounding. Quarter one of 1991 will be weak and gloomy following an inconclusive holiday period. Quarter two of 1991 will show broad recovery elements but no significant growth. Quarters three and four of 1991 will show evidence of recovery, with unemployment steady or down, employment clearly up, and industrial production showing buoyant gains.

Alan R. Ewalt
National Medical Enterprises

"In short—a year of recovery from what was an unofficial and relatively mild recession in 1990. Now, before you have me declared insane, give my prediction five to six months to ripen."

Industries that have been hard hit are those affected by interest rates, such as construction and real estate. Military suppliers are affected by Federal budget constraints and a complete turnaround in U.S.-Soviet relations. Alan Ewalt described this in Californian terms:

"Most defense industry analysts view the Persian Gulf crisis in the short term and consider that defense industries have enjoyed only a temporary reprieve from what surely will be major expenditure reductions. Southern California in its aerospace industry, in spite of the Persian Gulf buildup, has not received new contracts for airplanes and has not reversed its tide of major layoffs. The Los Angeles Private Industry Council, which has responsibility for administering training funds under the Joint Training Partnership Act and normally focuses on entry level jobs, has already begun to get pressure from the mayor of Los Angeles to help displaced defense workers."

Madelyn P. Jennings
Gannett Company, Inc.

Madelyn Jennings said, "We have been lucky unemployment rates have been as modest as they are, considering the state of our economy." One of the reasons for this is the extremely slow rate of growth of the labor force (about half of one percent in 1990). Nevertheless, when unemployment is rising from its Spring 1990 levels of just above 5 percent to the predicted level of about 6 percent in 1991, the flowout of unemployment insurance funds will also be rising. The payout volume may be spread quite unevenly from state to state. Initial claims for unemployment insurance are now running about 100,000 per week higher than last year at this time. Dan Mitchell discussed this as follows:

"Here are figures on the proportion of job losers who receive unemployment insurance (UI). (Note: You usually hear about UI recipients as a percent of all unemployed, but it is chiefly job losers who are eligible for UI.)

State UI recipients as % of job losers: 1979-1989

1979:	92.3%
1980:	84.9
1981:	71.4
1982:	64.8
1983:	54.3
1984:	56.0
1985:	63.1
1986:	65.5
1987:	65.3
1988:	66.7
1989:	72.2

"These figures suggest 1) that the ratio fell in the 1980s due to eligibility cutbacks and the increase in long-term unemployed (who exhausted their benefits without Congress extending them) and 2) that economic recovery and probably some relaxation in eligibility standards brought the ratio back somewhat by 1990. UI weekly benefits were about 35 to 36 percent of the weekly wage over this period.

"Let's compare this to what happened to this series in the 1970s recession and recovery.

1973:	96.3%
1974:	100.9 (!)
1975:	90.9
1976:	81.3
1977:	83.9
1978:	91.3
1979:	92.3

"The obvious conclusion is that we used to be more generous.

"UI research suggests that the duration of benefits does matter in terms of job seeking. There is a bump-up of people who find jobs after benefits run out. This gives conservatives an argument for not extending benefits. UI is part of the federal budget, even though it is largely state administered. This may also tilt against extending benefits. Even if the Gramm-Rudman-Hollings targets are lifted, there will still be pressure to do something about the deficit which will be soaring from a weakened economy.

"In short, I can't see anything dramatic happening to UI, especially if there is only a short recession (or no official recession at all)."

Mitchell Fromstein pointed out that, even if higher employer taxes are required to support the state/Federal fund, they would take effect after a recovery is in progress:

"The impact of significant increases in unemployment on the unemployment compensation system will be twofold: 1) increased claimants deplete the fund, and 2) decreased payments into the fund prevent regeneration of reserves.

"The ultimate effect is quite simple: companies will be burdened with higher payroll rates for 2-3 years after a recovery. The controlling factor is the length and depth of the recession.

"Since my scenario says 'recovery,' it does not anticipate unemployment compensation (UC) problems. The funds have been built up over a five-year expansion period and, thus, are in a condition to take a short pressure period without crisis."

If, however, recession or stagnation persists, workers' problems will become more severe. Alan Ewalt said:

"The Republican formula over the last 10 years of substituting economic progress and prosperity for growth in social programs will become unraveled in the face of a lengthy recession. The Democrats have done a masterful job in the debates of tax increase/budget reduction to take the focus off budget reduction and to paint the Republican party as the champion of the rich. They have, at least for a period of time, accomplished this to such an extent that it may have permanently damaged President Bush's popularity. The low-wage workers have, I believe, tolerated this distinction as long as the economy was in good shape and they felt a sense of security if not progress."

Health Benefits

Unique in the industrialized world, the U.S. links health benefits with employment through a private insurance-based mechanism. As a consequence, rising health care costs are felt acutely by employers, who have little control over this expense. This is a pressure that has grown for a decade, without yet causing a major shift in the "policy" of employer-paid private insurance. Companies have tried many methods to reduce costs, with the current trend moving toward managed care.

Mitchell S. Fromstein
Manpower Inc.

During this decade, also, employment relationships have become a great deal more fluid. Stable, long-term employment with one company is rare. Multiple employers, varied careers, and self-employment periods have become common. With this increased discontinuity in employment relationships, coverage under private health insurance plans is constantly being severed, patched together, broken and shifted. The change in stability of employment, alone, has strained coverage and left many people without protection.

Now, add rising unemployment. Madelyn Jennings described the effects:

"Individuals without jobs are going to find it difficult to pay for insurance even though COBRA [Consolidated Omnibus Reconciliation Act] is available. Many may opt to go without insurance and there will be governmental pressures to provide insurance for them. Employers will probably realize an increase in their bad experience for such coverage. The result will be a stronger push for some kind of minimal national health insurance.

"Many consultants are peddling partial answers to the health care system cost increases through managed care, HMO networks, PPOs, etc. They are minor in their impact.

"I would not say we have a serious breakdown in our health care system, but a country with 30 million uninsured and corporations facing 15 to 20 percent increases each year in medical costs can't stay in that situation.

"I envision more cooperation between health care deliverers and insurance companies, business and government. Ultimately, health care rationing may be inevitable."

Gene Remoff pointed out that the continuation of benefits under COBRA is a very expensive proposition:

"Certainly anyone who has lost a job is going to experience economic stress in deciding to pick up the full cost of their health care coverage, under COBRA, for the period of their unemployment. To some extent, the stress in such a situation would be tempered by the degree to which the laid off individuals determined correctly that they weren't going to require treatment or they had working spouses with coverage available in their place of employment.

"But the laid off person may have to make a tough, personal economic decision. One choice is to continue coverage (in expectation that it may be needed) at a dramatically increased personal cost, since the employer had previously covered at least 70 percent of the health care premium. Of course this would be done concurrent with a cutoff or reduction of take-home pay to the level of unemployment insurance payments.

"The alternative is to drop the coverage available under COBRA, avoid medical treatment, and if it is absolutely necessary, seek help as an indigent (or use personal funds). If this route is taken the individual may find he/she is denied access to many hospitals unless in a life threatening condition. If accepted by the hospital as an indigent patient, the institution will seek to cover the cost of such unreimbursed care by adding it to the fees it charges patients treated under indemnity plans, thus helping to drive up the cost of employer health insurance coverage.

"At various volumes of such cases, stress therefore builds on the unemployed individuals and their families, the medical providers who must decide how much unreimbursed care they will provide, and the insured employers to whom such costs will be shifted. If such occurrences were voluminous and the condition seemed likely to continue for some time into the future (a deep, long recession), pressure could build on the political front to compel employers to provide discounted rate coverage for laid off employees or for legislation providing access to health care—perhaps with qualifications similar to those needed to collect unemployment insurance payments."

David Lewin added:

"At the levels of unemployment I envision for 1991, there will be a modest but not a major increase in the number of people who are not covered by employer-provided group health insurance. I don't expect this 'fact' to produce a groundswell for new federal health care coverage initiatives. But such initiatives may well emerge and be 'driven' by the continuing, long-run increases in health care costs incurred by employers. It is employers, more than workers or the unemployed, who will spur new federal initiatives toward national health insurance in the U.S. possibly coming to fruition in 1991.

"The most likely development, not breakthrough in a fundamental sense, is the adoption of a national health insurance scheme for the United States. Such an initiative is supported, in particular, by executives of large corporations, who feel that they have borne an excessive burden of rising health care costs—and this despite the numerous health care cost-sharing and containment initiatives undertaken in recent years by these firms."

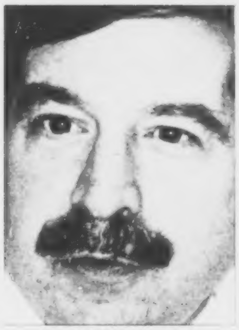
Dan Mitchell expects that, ultimately, mandated benefits will be imposed on all employers, and pointed out that this would be a national system:

"The argument is that employer coverage is the dominant mode of health insurance, thanks to our generous tax code. For those outside the system but with some employment connection, the easiest way to provide them with benefits is to mandate it.

"The issue is complex, however.

"1) If everyone is to get employer-provided insurance, we really need to look at such insurance as a public program, not a private one. It is really Medicare for the non-elderly. As such, it ought to be transferable from job to job without worry about pre-existing illnesses and variations in benefits across employer programs. This argues for either turning the insurance program into an adjunct of Social Security (everyone paying into one grand fund as in some European countries) or—if we insist on it being 'private'—the creation of a funding mechanism to facilitate transfers to employers who happen to end up with riskier employees. We need to worry about the mobility aspect since numerous indicators suggest there will be more job mobility—voluntary and involuntary—in the future.

"2) Adding to the pool of covered individuals will also add to the health care cost containment problem: more demand is created for health services. Employers have not proven to be excellent designers of health care cost containment systems. Why should they be? If your



Steven Darien
Merck & Co., Inc.

primary business is making tin cans, why should you also be an expert in health insurance?

"There are really two problems today: coverage and cost. We worry more about coverage as cost goes up, since uncovered persons can't afford the rising out-of-pocket expense. As we cover more persons in reaction to this worry, we drive costs higher. But the system doesn't break down: it simply grows faster than the rest of the economy in price and quantity. An aging baby boom—with its accompanying medical problems—will aggravate this process. But there is no identifiable breaking point that I can see.

"The public policy response is going to be linked to the political climate rather than a trigger point (i.e., rather than a certain share of GNP going into health care). A more liberal climate, politically combined with continuing federal budget problems, will probably push toward mandated benefits eventually."

Steve Darien noted that the short-term extensions of employer group health benefits, under COBRA, are limited.

"Because COBRA benefits are limited in term, severe dislocations and attendant manifestations of stress should be anticipated if downturns are extended and recovery is delayed past 12-18 months. These effects on individual employees, communities, and society at large would require states and the U.S. Government to mount a range of creative programs for coping with and managing stress. This will naturally place greater emphasis on national health insurance and universal coverage for all employees.

"The impact of growing unemployment (and employment in marginal jobs providing no health care benefits) will expand the ranks of the uninsured, exacerbating problems faced by providers and payers due to uncompensated care. The total number of Americans without health insurance is estimated to be between 30 and 40 million, and growing by one million per year. In my own state of New Jersey, almost one million are without any form of private or government-sponsored health insurance, resulting in an uncompensated care burden projected to be $600 million in 1990, growing to $900 million in 1991. Those numbers will grow if there is a real economic downturn in the state.

"Hospitals are not able to simply 'write off' this bad debt: Someone must pay. Historically, these costs have been 'shifted' to those patients with private health insurance in the form of higher charges of services. But increasing attention on cost containment on the part of companies that provide health insurance is reflected in an unwillingness to accept this cost shifting. As a result, private hospitals cannot afford to provide a significant amount of uncompensated care, and as uninsured patients are forced to utilize public hospitals (where they are available), pressure increases on the states, counties and local governments that support these institutions. Many public hospitals around the country are on the verge of collapse from the growing uncompensated care burden—state, county and local governments are not able to increase tax revenues to sufficiently support their hospitals in the face of this increasing demand. Growth in unemployment over the next year or two will only increase this stress.

"Unemployment and loss of health insurance will also impact upon the health of unemployed individuals and their families. Necessary health care will be postponed, medicines will not be purchased, and children will go without immunizations. The future impact of foregoing these items and services will be serious, on the health status of these individuals, and in terms of higher costs.

"Finally, greater unemployment will lead to growth in the number of Americans in poverty, with all of the well-known consequences. Increased drug addiction and substance abuse, depression and other mental illness, violence, and poor nutrition are only a few of the outcomes related to unemployment and poverty."

Gene Remoff pointed out that suffering must always be considered in individual terms:

"The toll of extended job loss is much greater and too often goes unnoticed in the executive office. These tragic consequences have been observed and reported when an employer has shut down the town's primary plant, or, as in the case of the 'rust bowl' of the early 1980s, when whole industrial complexes ground to a halt. But it happens in 'small' cases also."

Alan Ewalt described why the legislation creating COBRA represents a very poor solution to the problems of individuals needing health care coverage:

"This recession is the first recession the U.S. economy has entered in which employees have been protected by COBRA. Although the availability of this safety net is very important, it is also very expensive. For example, in my own company, employees purchasing health insurance for themselves would pay $216 a month for COBRA, and if they elect coverage

A Survey of Surveys: Salary Plans

Organization	Level of Employee	1990 Salary Increase	1991 Planned Salary Increase
American Compensation Association	Executive	5.8%	5.7
	Exempt Salaried	5.5	5.5
	Nonexempt Salaried	5.4	5.4
The Conference Board	Executive	5.5	5.5
	Exempt Salaried	5.0	5.5
	Nonexempt Salaried	5.0	5.0
ECS, Inc. A Wyatt Data Services Company	Executive	5.6	5.6
	Exempt Salaried	5.2	5.2
	Nonexempt Salaried	5.1	5.1
Hay Management Consultants	Executive	6.3	6.0
	Exempt Salaried	5.2	5.3
	Nonexempt Salaried	5.3	5.3
Hewitt Associates	Executive	5.9	5.8
	Exempt Salaried	5.5	5.4
	Nonexempt Salaried	5.3	5.3
William M. Mercer, Incorporated	Executive	5.7	5.7
	Exempt Salaried	5.4	5.4
	Nonexempt Salaried	5.3	5.2
Sibson & Company, Inc.	Executive	5.9	5.7
	Exempt Salaried	5.4	5.4
	Nonexempt Salaried	5.2	5.2
Towers, Perrin, Forster & Crosby	Executive	5.4	5.5
	Exempt Salaried	5.2	5.3
	Nonexempt Salaried	5.0	5.0

Planned salary increases for 1991 remain generally unchanged from the average salary increases reported for 1990. This is a downturn from last year's (1990) forecast, where the majority of projected salary increases were higher than the 1989 reported actual increases. These steady rates of increase suggest an attempt by companies to keep compensation costs at a stable level in response to an uncertain economy.

Elizabeth R. Arreglado
Research Associate

Data compiled by:
Theresa A. Brothers
Research Administrative Assistant

Irving Margol
Security Pacific National Bank

their dependents would pay $427 per month to maintain coverage. Unemployment insurance benefits do not go very far after paying such lofty premiums. Therefore, I fully expect employee behavior will be similar to what it has been in prior recession periods (i.e., there will be a rush to obtain services in anticipation of potential layoff and loss of employer paid health care protection). Somewhat different from prior recessionary periods, there will be a rush also on a post-layoff basis during the early months of COBRA participation for employees to receive both elective and needed services after which they may allow COBRA protection to lapse. Financial implications for the employer are significant as I foresee a surge in already dramatically adverse claim experience with the COBRA plan. The loss ratios will surge well past the 150 percent level, which means the employers will underwrite a large portion of these post-employment claims costs.

"Those employees who elect not to take COBRA protection or who can't afford COBRA will do as in the past; that is, they will postpone medical services as long as they are able to in hopes that they will be picked up under a new health care plan before problems become too compelling. This coverage gap is a very unfortunate and sad development that reflects a continued flaw in the U.S. health care delivery system. An extended recession will demonstrate that COBRA is predominately a short-term solution and is prohibitively expensive to provide much long-term usefulness to the unemployed."

Irving Margol pointed out that, with rising unemployment, the burden may be transferred back to former employers by additional legislation. However, he does not see such an outcome in 1991:

"There will be a system overload—more and more people with no medical insurance will be in need of medical/health care. Given this, a number of situations may occur:

- Congress may elect to extend the COBRA benefits. Although this would extend the benefits available for a longer period of time, there is still the issue that these people cannot pay for COBRA because they are unemployed.
- This may be seen as an added impetus for Congress to create a National Health Policy/System/Program. This would be a program just for unemployed people with no medical insurance. However, this poses the question, 'How do we pay for such a system?'
  Do we tax employers to pay additional dollars?
  Do we increase the FICA tax? (today, a portion of FICA is allocated to Medicare)
  Do we remove the cap from taxable FICA wages?

"The ultimate stress in the long run will come back to the employers since they are responsible for originally terminating/displacing these people. However, I feel that although stressful, the loss of health care benefits will not really heat up as an issue until 1992."

Dan Mitchell:

"The history of Section 89 captures all that is wrong with public policy toward the employment relationship. There is no consensus on exactly what Americans expect from the employment relationship—in part because no one asks the question that way. Instead, we get piecemeal decision making on aspects of that relationship. So the notion of closing the gap in insurance coverage (without running it through the federal budget) becomes married to the (1950s) idea that employment is the logical home for insurance. The result was Section 89. Section 89 was supposed to spread benefits to the uncovered through its anti-discrimination rules.

"Of course there were difficulties.

"1) Many uncovered workers are at small firms where no one gets benefits. So non-discrimination rules don't help.

"2) Pre-Section 89 exclusions from coverage often tilted away from people with loose employment relationships such as part-timers and temporary workers. Whether such people should be provided with some form of coverage is a matter of public policy. But it didn't make much sense to do it through existing employer-provided programs which assume long-term attachments. And, in addition, it is often the case that people with loose attachments have different benefit needs than regular employees.

"We ended up in a situation where almost every major employer in the country had to revamp its benefit plans, only to find out in the end that the whole costly exercise had been unnecessary (when Section 89 was repealed). And this isn't the first time such a thing has happened. Remember catastrophic care? Employers with retiree benefits or elderly employees had to go through various contortions to deal with that program before it was abruptly repealed.

"You asked where this will lead in 1991 in the broader arena of public policy. Probably nowhere in the very short run. It may add some fuel to pressures to mandate health care since if everything is mandated, you don't have to worry about discrimination. But in the longer run, I fear more on-again-off-again fiascoes. I cannot stress enough the importance of first addressing the employment relationship and what we expect from it before we dash off to modify bits and pieces of that relationship."

Steve Darien mentioned the need for a political shift toward accepting a tax-based health care system, but does not expect it to develop in the immediate future:

"The problems that have lead to cracks in our health care system will continue to worsen. A significant breakdown will be necessary before we see a breakthrough, before the American public confronts these issues and recognizes the need for basic structural change, such as a change of heart on the need to raise taxes. Business, which already provides support for its employees and underwrites uncompensated care by accepting cost-shifting, should not shoulder the entire burden of health care reform. This structural change will require additional funds, from the general public. At what point this will happen, only time will tell."

Gene Remoff also described a shift, but it is in terms of denying health care. He makes it clear, moreover, that care is denied ("rationed") to poor and uncovered people today.

"We are moving inevitably toward the need to make some hard choices, choices that have been made in other countries (e.g., Canada, U.K.), regarding the limits to which medical treatment can be provided. Not many studies address this notion head-on for it is very unpopular in the U.S. and is not presently in the minds of our citizens who either are (a) well-off and tolerate a significant increase in premiums or, (b) more commonly, retain the belief that their insurance program can continue to provide a major amount of reimbursement (catastrophic coverage) without regard to the degree of success likely from many types of treatment.

"Simply put, we are going to either eventually override other national priorities with enormous health care costs or else begin to say 'no' to treatments that evidence questionable positive outcomes or serve only to delay what is believed to be death, without interim recovery, of the patient. Some use the pejorative term 'rationing of health care' but, of course, for those who are poor, we have a kind of rationing now.

"As late as last year (see *Human Resources Outlook 1990*) I hoped that the Canadian system could offer a potential model around which we could fashion an approach in this country. Now I'm less enthusiastic about that view. The Canadian system also has problems with inflation, and is experiencing long hospital stays. Furthermore, its popular appeal would not be the same with our voting citizens, who are still used to wide-open choices of doctors, and hospitals, ready access to non-emergency treatment, and the 'try anything you think might help me, Doc...' view of medical expenditures. If we don't eventually make the choice to selectively limit medical treatment, rising costs may then make access impossible for large numbers of voters. That *breakdown* may cause a *breakthrough* in voter attitudes (if that's a good term for it) that moves us toward a national system."

In a practical mode, Mitchell Fromstein suggested that a controlled experimental program be initiated, with Federal (or possibly state or local?) authorities coordinating and managing a group effort:

"The macro problems are high costs of malpractice insurance for practitioners; over-usage and over-charging for services without a careful assessment of actual needs; duplication of expensive services at a hospital level; under-coverage or absence of coverage for 15 to 20 percent of the working population.

"It may be time for government to take an assertive role in policing the system in order to avoid a fully government-operated system. Government could organize a consortium of private insurers to offer standard coverages designed to meet agreed-upon needs and assume the costs for non-covered people while having employees assume the costs for the employed work force. The government portion would be tax supported.

"The government could, at the same time, abate the malpractice insurance cost problem by establishing an arbitration procedure on malpractice claims with high end limitations on awards. This would remove legal costs, unusual jury awards and exposures now faced by insurance companies. Finally, the government could establish regional or area medical services boards to oversee hospital costs and practices.

"These three elements would be the start of a private system to insure needed coverages while controlling the burgeoning delivery costs and legal problems. It would keep the government out of the health care business as a provider but allow it to monitor delivery practices and costs.

"I am a firm believer in pilot programs to try out possible solutions. I would like to see the government select a confined area and try a system with various control elements to see if it works."

One of the possible outcomes over the next five years is as follows: Two or three states make major moves toward mandated employer health benefits for a basic minimum package of benefits, with some minimum employer contribution. At that point, pressure would build for a Federal government mandate that pre-empts state requirements.

As such mandated benefits plans are considered, the problem of job mobility, self-employment, and other employment disruption will become more obvious. The solution ultimately may settle upon a trust-funded, portable basic health plan, paid for by required employer and employee contributions.

Economic Participation of Minorities and Women

Most of the panel members expect that legislative activity will continue in 1991, and that the proposed Civil Rights Act will be introduced in a different form, or with minor changes. Apart from regulatory moves, general management views about the diverse work force produced lively discussion. For example, the enlightened management point of view focuses on providing opportunities and support for minorities and women. One panel member, hearing this, wondered whether there was an implied assumption that a diverse work force might be less productive, and that management needed to "overcome" this possibility. The member suggested that management might take a completely different angle: assume that minorities and women will generate creative and innovative ideas—and vitality—that would never spring from a conventional white male management.

The competitive advantage in work force diversity was addressed by Madelyn Jennings:

"The essential EEO issue is that, whereas chairmen of corporations spout commitment to diversity, they aren't doing a very good job helping their managers learn to manage diversity or even believe the chairmen's rhetoric in their day-to-day decision making. The most seriously affected are African-Americans whose progress up the ranks in industry is so very disappointing. Managers understand that different doesn't mean deficient and it doesn't mean dumb. The essence of a bottom-line philosophy can be that if your work force is diverse, it will be broader, richer, see more possibilities and create more ideas. This could be a *hidden competitive edge* against our global competitors. In the United States, the white male leadership hasn't done such a bang-up job. More diverse leaders may improve our performance."

Gene Remoff agreed with Jennings on management's inadequacy, though he focused particularly on human resource managers:

"Those trying to break in, break through and move up in the work setting encounter obstacles that often have no rational basis for existing. Why would a business not want to hire and promote those persons who are best qualified? Why is the selection process, that denied me the job I wanted, so seemingly irrelevant and unfair? Why doesn't someone tell me why I was rejected? Isn't there a labor shortage? (Can't I be trained?) Why do all the jobs in this office start at 9:00 a.m., end at 5:00 p.m. Monday through Friday? Why doesn't management (which I am told is supposed to get paid for the results of their department) care about who I really am, what I'm willing to do, what skills and ideas I have?

"At this time many male-dominated managements, already not clear on what the relevant male qualifications are for many management jobs, don't know where the sexual bias (along with other bias) is in their selection practices, much less how (and why) to remove it. Nor do such managements know why or how they should restructure the workplace and work practices, in which they have taken comfort through the years, to now accommodate their increasingly female managerial and professional talent pool.

"At this moment we don't know how to digest the stream of poorly prepared young people, mostly minorities, into our increasingly demanding jobs. We don't know how we can recover the cost of remedial education (much less how to provide that education and why it's now management's responsibility).

"The effectiveness of human resources management efforts in this country varies tremendously from company to company. In too many cases it is why we are losing ground in the global market. These great differences in how firms manage their work forces can hardly be attributed to otherwise skilled managers deliberately intent on denying equal employment opportunity to a segment of their potential work force. Rather, it's simply due to managerial incompetence—and where it occurs, it has a profound effect on the employment opportunities for minorities and women. So, the culprit at this stage of our development as EEO employers is a very large lack of managerial awareness and skill regarding organizational effectiveness."

Rex Adams concentrated on promotion opportunities:

"Former Secretary of Labor Elizabeth Dole said back in July, 'The employment and promotions of women in all positions for which they are qualified, be it skilled or unskilled, blue- and white-collar jobs alike, is no longer an issue of moral suasion, it is a business and legal necessity.' The 'glass-ceiling initiative' is an effort to quicken the promotions of women and minorities to senior positions at companies receiving federal contracts. This is a top priority of the Department of Labor and is being driven directly by the OFCCP (Office of Federal Contract Compliance). A gut question, when the OFCCP comes knocking, is how centralized or decentralized the female/minority promotion decisions are. In the early OFCCP trial run (e.g., at PepsiCo) the compliance officers found the company's decentralization hard to believe.

"It seems clear that companies will be expected to go beyond offering a discrimination-free setting. Employers will be expected to 'reach out' much more than they have been expected to in the past. Given the past results experienced by most corporations in the hiring and promoting of women and minorities into upper management, corporations will need to continue to pursue affirmative action and upward mobility programs with renewed vigor. Programs with an objective of just achieving a discrimination-free setting will not meet the expectations of a diverse work force and are not likely to be found acceptable by OFCCP when audited.

"The issues of diversity in the work force are going to continue to be significant to Corporate America, and, if anything, they are likely to become more contentious. Contributing factors include: (1) less progress with the effective integration of the races than one would have hoped; (2) most major cities continue to be residentially segregated and 'white flight' to the suburbs is a continuing phenomenon; (3) anecdotal evidence from universities suggests that the integration of minority students at most campuses is more nominal than real; and (4) growing tension within minority groups, between the educated and successful middle classes and the disadvantaged, and between minority groups, particularly between the older and more established black and Hispanic communities on the one hand, and the newly arrived groups from Southeast Asia on the other. These all contribute to the political polarization and political expression that will increasingly tempt politicians to displace some of the pressures of frustration and anger onto the backs of business.

"Bottom line, we should expect the political heat on women and minority issues to be turned up in the '90s."

David Lewin added Asian-American workers to the glass ceiling discussion:

"Consider, for example, the issue of the glass ceiling for Asian-American workers as well as female employees. This refers to the extremely small representation of both groups in middle and senior management ranks, despite the substantial amount and proportion of the hiring of both groups into entry-level positions. Will companies be pushed to go beyond current practices in this regard? I believe that they will, but not by legislation. Instead, the forces will be internal to business organizations, as Asian-Americans and women increase their levels of explicit protest about denied opportunities. In other words, work force diversity in the 1990s will focus on the executive suite and on middle management jobs. This is where the action will be in 1991."

The proposed Civil Rights Act of 1990, which will probably be introduced in altered form in 1991, focused on promotions in particular. Mitchell Fromstein suggested that this emphasis might induce some companies to avoid hiring minorities and women, so that the question of promotions will not be raised. His idea is echoed in an article by an EEOC lawyer, who pointed out that it is easier to discriminate in hiring, when the applicant is less able to discern and prove the fact.[1] Fromstein does not expect current regulatory proposals to improve opportunity:

"The Civil Rights Act, in my opinion, may solve a political problem but create an economic problem in that companies will be loath to hire the people who most need the work in fear of creating EEOC problems and costs after the hire. I believe (perhaps naively) that the worker shortage of the '90s will, by itself, reduce discrimination to some degree, and that age and sex discrimination is being reduced and will continue in that direction.

"The real problem in the end relates to color and mainly to blacks. The problem is shifting from one of hiring practices to the area of promotion and representation. In the larger companies where entry-level management talent comes mainly from business schools, there will be more opportunities than candidates. In smaller companies, I believe the progress will lag. The proposed Civil Rights Act centerpiece is the ability to sue for substantial damage awards; it will find its visible strength in the large companies with 'deep pockets.' This will take a very small bite out of the problem. It will generate more media coverage and impact than real job opportunity."

Legislation to prevent discrimination against disabled workers is still in the implementation stage. Rex Adams depicted the comprehensive nature of the regulations, while Alan Ewalt described the positive actions taken by his company:

"The ADA is the most comprehensive piece of federal civil rights legislation enacted since the Civil Rights Act of 1964 and extends to employment, public services, public accommodations and services, commercial facilities and telecommunications relay services. Perhaps the most important provision of this act is the creation of a private right of action for failure to make 'reasonable accommodations' for persons with a disability. This provision will now subject business judgments to judicial review. Therefore, decisions regarding accommodations for disabled persons must be carefully planned, consistent in every detail with the complex requirements of the law, and thoroughly defensible on the basis of fairness. Bottom line, during 1991 employers will need to address the following:
(1) job descriptions and hiring and promotion criteria,
(2) personnel selection and record-keeping procedures,
(3) training managers and supervisors, and
(4) accessibility of facilities."

(Ewalt):

"I'd like to add a description of a plan our company has implemented in the last two years. We call it 'Overcoming Challenges,' which is an initiative to enhance the employment of qualified persons with disabilities in our own work force. We began this effort in 1988 with the goal of accessing a portion of the labor force which has been underrepresented. We are enthusiastic about what our facilities have achieved in a relatively short period. We've been warmed by the positive reception from our employees coast to coast as we provided briefings, education and sensitivity training on managing diversity and providing reasonable accommodation to persons with disabilities. Overcoming Challenges is a win-win situation where managers fill jobs with qualified persons with disabilities."

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[1] James P. Scanlan, "Double-Edged Civil Rights," *The National Law Journal*, November 5, 1990, p. 15.

Supervision

Consideration of the nature of first-level supervision leads quickly to the question, "why take the job?" As workers function with increasing autonomy and power in their production and service jobs, a second question might be asked, "do we need first-line supervisors?" Finally comes the more constructive question about how far supervision and management itself must move from authority and control to communicating, developing, and leading. Panel members' comments covered these points.

Alan Ewalt referred to the supervisor's new role in "culture shock" terms, with a specific example:

"The role of first-line supervision is the toughest job in business today. As the knowledge worker and the more knowledgeable subordinate become more and more independent, the role of the supervisor becomes less an authoritative role and more a role of coordination. The supervisors who are experiencing programs in gainsharing, new manufacturing methods, total quality management, etc., are confronted with a whole new world of getting the job done. Total culture shock confronted supervisors as they entered plants such as the NUMMI plant in Fremont, California. This joint venture between General Motors and Toyota utilizes Japanese management methods and requires traditional U.S. experienced supervisors to adapt to Kaisan methods (Kaisan means continuous improvement). Supervisors no longer manage by fear and threat of firing, but by positive motivation, encouragement and communication. It sounds pretty good, but it is a tough transition for those first-line supervisors who have been doing it the traditional way for 20 years."

Madelyn Jennings mentioned the elimination of the first layer of supervision in team-managed plants:

"With the thrust toward teams, some companies are eliminating many first-line supervisory jobs. Employees, who know the job best, are working together to assume responsibility for decision making, setting goals and deadlines. Instead of first-line supervisors, the teams have resource people who support them in achieving their objectives.

"Another scenario for certain kinds of jobs is, finally, more emphasis on the development of strong first-line supervisors. Many are overworked, underpaid, underappreciated and untrained to lead today's work force. Programs are imposed on them, such as customer service, and they are not given a clue as to how to carry out what the people at the top think is a 'good idea'. The smart companies will spend much more time focusing on professional first-line supervision and the result will be improved work environments and improved productivity."

Rex Adams was blunt about the force of this change in supervisors' (and managers') prerogatives and power:

"There is an eagerness among human resources professionals to push the process of redefining the manager's job to accommodate the newly empowered employee. It's fair to say, however, that the empowerment process is not yet complete, and is only beginning in many of our more traditional union and non-union work forces. Even among so-called 'knowledge workers' the urge to empower is more keenly felt among HR people than it is among either managers or employees. There is a lingering sense of comfort in leaving the tough decisions to the boss, in maintaining an 'us against them' attitude. Until that trend is slowed or reversed, traditional managers in traditional roles will persist as the norm.

"But as the empowerment process grows, and employees begin to take more responsibilities for their careers and their work, the new managers will find they cannot predefine their roles. They will define their role based on the material they are working with at any one time. If they have raw talent, they must teach and monitor. If they have laggards, they must coerce work, if they have experienced, well-trained specialists, they must reward, encourage and get out of the way.

"Supervision will not be glamorous, and it will not be rewarding in the way it was. It will be like coaching a football or baseball team—less secure, less financially rewarding. Supervisors will be fired before their subordinates, and rarely praised except when results are unimpeachably good. Fewer people will want to be supervisors and managers, because it is more frustrating to guide than to direct.

"We HR people can most productively focus our energy on two fronts. First, we must continue to push the process of empowerment, opening the channels of communication so employees are better able to see for themselves what is best for them, rather than attempting (more and more fruitlessly) to define success in our terms rather than in theirs. We must do what we can to make our employees independent but committed to improving the organization while they are there.

"Second, we must 'de-mythify' supervision—remove the gloss from being the boss. We can give current and aspiring supervisors a hard dose of reality. Managers have less power, and what they have they must willingly share. Decision making is more of a chore, less rewarding, when you must get buy-in before you act."

Steve Darien has a more upbeat view of the same process, feeling that the supervisor is now "freed" of boring work:

"To the extent that more and more first-level workers can and do operate autonomously, the role of supervision will change for the better. Rather than being confined to repetitively monitor, review and clear the output of first-level workers, the supervisor will be freed to assess the efficacy and quality of his or her unit and functions. It should offer opportunity for a continually fresh look at the way in which a product is manufactured or a service provided in the light of changing circumstance both within the company and in the external environment. Further, it should encourage the first-level workers to accept and enjoy their autonomy and thus increase their efficiency and performance. Supervision, in short, becomes a positive experience (contributing to change and success) not a negative one (scrutinizing and criticizing the work of others)."

David Lewin returned to the question of rewards. Given the problems of the job, he was generally negative:

"As workers acquire more autonomy and enhance firm output and service, supervisors are threatened by a perceived diminution of their role and power, and by the potential for their jobs to be eliminated. After all, if workers can supervise and manage themselves, why are supervisors needed to replicate these processes? From a labor cost and labor cost-to-revenue point of view, true implementation of worker self-management, autonomous work teams, and other decentralized decision-making concepts, implies no need for overt supervision.

"The conundrum in all of this is that self-management and related concepts are just that—concepts—and thus are not likely to be fully implemented. One reason for this is that workers differ in terms of their risk preferences—not all workers prefer to fully self-manage. Senior exec-executives believe that the median worker, if not all workers, share their own newly found belief in self-management and decentralization. But a more realistic view is that these preferences vary widely. Therefore, a 'demand' for first-line supervision will probably remain in place, though at a diminished level relative to prior eras.

"Moreover, even without a new emphasis on self-management and decentralized decision making, the growing ability of workers to achieve earning levels that exceed those of their direct supervisors (through overtime payments, shift differentials, and the like) clearly imply that disincentives exist for workers to accept supervisory jobs when they are offered. This is no small issue given the increase in overtime hours among hourly wage workers in the U.S. *and* the growing (unpaid) hours worked by salaried supervisors. In other words, the question, 'Why accept a supervisory job?' is an increasingly pregnant question and one increasingly likely to be answered with 'no reason at all.'

"If the phrases 'customer-driven', 'market-oriented', 'self-management', and the like not only have analytical meaning but actually become widely translated into practice, then the following will result: (1) a diminution in the power and role of first-line supervision, (2) the elimination of first-line supervision in certain settings, (3) a reduction in the labor cost/total cost ratio of businesses, even when workers are paid more for 'bigger' jobs, and (4) a gap in management development and succession plans of businesses whereby middle managers will become less likely to be drawn from the ranks of first-line supervisors. The limits to all these developments lie in the array of worker risk preferences for self-management, decentralized decision making, and other new initiatives referred to above."

Mitchell Fromstein identified problem-solving ability as the basic skill, the one that supervisors must develop in first-line workers through a mentor role:

"The role of supervision in the face of increasing front-line autonomy is a highly-complex subject that is receiving a great deal of attention in terms of emerging organizational concepts. The trend in 'breakthrough' companies is to focus on two elements: front-line empowerment and training. The front-liner, in fact, is the primary source of product and service quality. The trend is to provide the tools from the top and the execution at the bottom in the most effective manner. In contrast, the old system simply handed down power and control from one level to another. The result is less and less involvement at each level.

"The new system gives responsibility and accountability directly to the front-line, and uses the intermediate stages of management to train and coach the front-line to understand and use its power properly. The manager in this system becomes a combination of leader and trainer. The quality of supervision is measured by the degree and quality of independent performance at the front line.

"The key ingredient at the front line is *problem-solving ability* at whatever level is required by interface conditions. This could involve a hotel maid, an assembly line worker, a design engineer, a professor, or a salesperson. What is needed is a method of measuring a person's problem-solving ability and designing ways to increase it. The supervisor becomes a mentor rather than a controller. Fewer are needed but their abilities and methods are undergoing radical change."

The sports term "coach" appears frequently in descriptions of supervisors' new jobs. The parallels fit rather closely. "Coach" carries the implication of autonomy for the team players who are actually out on the field, similar to the autonomy of a service worker dealing with customers. It implies the coach's responsibility to teach and to plan, but a lack of direct control. There is also an implication of disciplinarian in the term "coach," which is not entirely out of place in any realistic employer-employee relationship. Finally, "coach" usually brings to mind a football or basketball team: its connotations are male.

Gene Remoff described the developing supervisory job in these terms:

"The role of facilitator-coach requires that these new-concept supervisors:

"a) Accept the view that first-line employees want to do a good job, have ideas on how best to do the work and are willing to put those ideas into practice.

"b) Understand and be guided in their coaching of employees as to what the firm's standards are for product and service quality, cost control and ethical behavior. If these standards are quite demanding in all areas then conflicting goals may appear between short-term cost and longer-term quality objectives. The supervisor will continue to need support in reconciling such conflicts—something he or she didn't always get or seek when their role was more traditionally power-driven.

"c) Understand the differences between people in an increasingly diverse work force, and how that affects their approach to task preparation, work, need for recognition, and response to supervision.

"d) Deal in some cases with remedial education of workers who were not prepared by school and parental training to enter the work force with appropriate skills and modes of behavior.

"Finally, training and education of the supervisors themselves requires an investment of time and money by the firm's management.

"This is a particularly important issue because organizations are also thinning out the ranks and expanding the spans of control of middle management—the traditional coaches and facilitators of the supervisors themselves.

"For we should also acknowledge that increased responsibility and authority for one's work is not only being moved to the front-line worker. Companies are also pushing to analytical, problem-solving, and decision-making responsibilities from middle management to the front-line supervisor and also taking steps to listen more thoughtfully and openly to what these front-line supervisors say they need and don't need (stop the reports!) to better serve their customers."

Finally, Dan Mitchell reminded us that, in fact, the recent talk about reducing layers of supervision and management has been more talk than reality:

"There is one fly in the ointment. So far, the numbers don't suggest a thinning of management's ranks. Using the Census definition of 'executive, administrative, and managerial occupations' as a percent of all employees at business cycle peaks, we get the following results from the CPS:

1973:	8.9%
1979:	9.9
1989:	12.5

"If we use the much broader ratio of supervisors to all private nonfarm employees from the establishment survey, we get:

1973:	17.2%
1979:	18.3
1989:	19.1

"In short, if mean and lean is the projection, and if that means fewer supervisors and managers as a percent of the work force, it hasn't happened. But perhaps what is happening, or what will, is that the boundaries separating management from labor will grow fuzzy, perhaps because people who might not have been considered managers and supervisors are reclassified."

Variable Pay

A clear trend during this decade is toward much greater use of variable pay. In most cases, it is a given that variable pay is intended to call forth greater employee effort, and all attention is turned toward implementation, design, and other details. However, the purposes of variable pay—and the purposes of "base" pay—produce a strong undertow influencing the course of this strong trend in 1991 compensation planning.

Dan Mitchell identified two purposes for introducing variable pay. One of them is oriented toward management concerns (create an incentive for greater effort); the other is affected by general economic benefit flowing from wage flexibility, a somewhat more academic concern:

"It is important to note that the standard personnel approach to variable pay—whether of the profit sharing or incentive variety—has been that the bonus payments should be seen as something 'extra' (i.e., gravy on top of what you would have gotten anyway). The idea was that this would make you appreciate management's generosity (profit sharing) or make you want to do something extra (incentives). (In contemporary economics, there is even a 'gift exchange' theory to go along with this old idea.)

"The gravy approach is premised on the assumption that what you want to achieve from flexible pay is loyalty or more effort. Loyalty and effort, in turn, are supposed to lead to higher productivity. But there could be another purpose for flexible pay programs—which became important in the 1980s as the economy became more volatile and uncertain. Flexible pay makes labor costs more flexible, thus sharing risks of the product market with labor (and reducing risks for capital). It may also allow more job security in exchange for less wage rate security. If what you want from flexible pay is more labor-cost flexibility then you need to have a large component of the wage subject to some kind of contingency. That is, the guaranteed base pay must shrink substantially as a percentage of expected compensation.

"During the 1980s, there was a spread of profit sharing into untraditional areas, especially the union sector. The motive was flexible labor costs rather than the older loyalty/incentive approach. But the share of flexible pay in total compensation has remained small in these newer plans. It is unclear whether the lump-sum bonuses that evolved in the union sector will become de facto profit sharing along the Japanese model. Special tax incentives for programs like profit sharing were proposed in the United States but never implemented. (In contrast, in Britain such tax incentives were adopted.) Thus, if there is a shift toward flexible pay plans for reasons of flexible labor costs, it is so far an unfinished revolution in the U.S.

"But there are two other considerations, depending on how you view flexible pay systems:

1) If you think about flexible pay systems as a way toward achieving flexible labor costs: We don't yet know if base pay has become less rigid than in the past. If that is the case, then the need for explicit flexible pay systems on top of the base is lessened. Currently rising unemployment will give us the answer soon. (We can thank Saddam Hussein for assisting in an interesting social science experiment in wage determination.)

2) If you think about flexible pay systems in the older way as a means to raise productivity through increased loyalty and incentives: There is growing research evidence suggesting these systems do work to raise productivity. If so, the older gravy view may continue. Firms with flexible pay systems might have base pay rates about equal to those of other firms and provide bonuses on top of the base which pay for themselves through added productivity. Flexible pay might spread without special tax incentives as management adopts the strategy for traditional reasons."

David Lewin pointed out that pay is determined by such factors as seniority, merit, equity, and cost-of-living. One might add to his list: competitive labor market rates for the job. He then observed that these govern pay for *inputs*, while variable pay is determined by *outputs*. For most work in today's economy, it is very difficult to determine (or even to define precisely) the output of the job. Therefore, variable pay may either be more subjective than it is reputed to be, or more subject to constant correction and revision. Lewin said:

"The underlying issue here is that multiple criteria continue to govern pay setting in most companies. These include cost-of-living, seniority, merit, equity, and other factors. Note that these criteria generally reflect pay for 'inputs', whereas variable pay plans are intended to reflect pay for 'output'.

"To the extent that business firms use variable pay less than their policy statements suggest they do, this behavior may reflect either an inherent risk aversion for variable pay or a major difficulty in measuring performance sufficiently to assign variable pay awards. The latter is no small problem, as is attested to by company experiences indicating that performance appraisal ratings show a strong tendency toward 'central tendency', and that these ratings are skewed toward the high end of the rating scales used. Also, numerous court decisions have been rendered which find performance appraisals to be invalid and unreliable, as used by companies. If merit is difficult to determine—and the difficulty may lie less in measurement of performance, than in supervisors and managers' knowledge that the ratings are used primarily for pay-setting purposes, so that they intentionally avoid making more discerning judgments—then the failure by companies to be more 'discriminating' in awarding merit pay is understandable.

"Two other points are worth noting here. First, in companies that have undergone and are undergoing reductions in force, the jobs of surviving employees usually become larger. Awarding merit pay (differentially) on top of base pay increases for these employees may be sensible because the overall 'wage bill', or labor cost to total cost ratios, may well decline. The motivational effects on job performance resulting from merit pay on top of base pay in these circumstances may also be quite positive.

"Second, the whole concept of merit pay is undergoing challenge, it seems to me, because growing proportions of companies are using profit-sharing and bonus plans which are based on department, division, business unit, or total company performance, not individual performance. Unless one chooses to retain a base pay, merit pay, and profit-sharing triad, which can be done, it seems that merit pay awards based on individual performance (appraisals) are perhaps 'on their way out.' In fact, such a development may have positive developmental consequences for employees in that if appraisals are not used primarily or at all to determine pay changes, they can be used for and targeted on employee coaching, counseling, career development, and skill upgrading. Hence, it is well worth pondering whether the time for individually-based merit pay decisions has come or should come to an end."

Madelyn Jennings is skeptical:

"My suspicion is that many of the variable pay plans have as their goal to contain costs. With as many companies as are currently reporting down quarters, variable pay may certainly lose its attractiveness for the worker. Typically, if a merit increase budget is 5 percent, they might raise base pay 2.5 percent and offer a variable portion of another 2.5 percent.

"In concept, base pay increases are intended to reflect cost of living and the variable portion was designed to reflect achievement of goals. From what I hear, some major companies are touting their variable plans when, in reality, if goals are met, they may mean $500 to $700 in incentive dollars per year to an employee. I'm not sure this is really an incentive."

Irving Margol pointed out that the variable part of pay is often affected by developments that are entirely outside of the employee's control:

"Variable pay, pay for performance, whatever you call it, is in vogue today. In concept it works well, but in practice it has a large number of problems, especially: on what is it based, and does it take into consideration factors outside the employees control? The latter issue has had an impact in some of our programs (i.e., collapse of the real estate market: cut back in defense spending), and turned people off.

"In our case, base pay can only go up if salary surveys indicate that the base salary is non-competitive. It has not been as much of a problem to us as the effect of the condition of the economy on the plans. Our base salary is the midpoint of the range. Employees can get annual increases up to the midpoint, then are frozen at this point, and variable pay kicks in depending on performance."

Mitchell Fromstein suggested that part of the reason for failure of variable pay plans is that they have not been "marketed" by management:

"We use buzz words like 'variable compensation' and 'line level empowerment' very freely and loosely in describing concepts and trends. They look very appealing in report form. What is necessary to make them fly is quite a different matter. At a corporate level, everything seems fine and logical—notably, the WEPCO [Wisconsin Electric Power Company] restructuring and the Du Pont variable pay. Beneath the surface, however, is clear evidence that the 'troops' impacted by the plans are anything but sanguine—even though apparent care was taken to be communicative, informative and participative.

"There is apparently a basic distrust of change when it appears in the form of management plans. Employees tend to see these changes as threats to job security, incomes or their positions in the organization. These distrusts will undermine programs in the earliest stages unless a way is found to minimize or eliminate them. What is interesting to me is that the same work force seems to trust the same management with strategy, product and marketing decisions which, in fact, have a greater impact on job security.

"What creates this credibility gap? How can it be narrowed? Is it in plan design? Communications? Does the use of outside consultants taint perception? I wonder whether the human resources function isn't going to need better marketing techniques to close this gap. As the current downturn subsides, we will be faced with a situation where quality, productivity, and profitability demands will conflict with a shrinking, diverse supply of employable people who have less and less bonding to an enterprise. Perhaps we are going to need human resources policy marketers in our major companies."

With regard to variable pay itself, Fromstein is positive:

"The trend toward the design and implementation of variable compensation plans (i.e., compensation other than fixed wages or salaries which is based upon a predetermined measurement or standard) became quite clear in 1990 and promises to continue in 1991 and beyond. The roots of the system lie in the necessity to have a greater assurance of increased productivity, product or service quality and a sense of 'ownership' in exchange for labor costs.

"In general, I believe companies are willing to pay these variables as additional labor costs in return for or based upon better performance as opposed to using them as transfer payment against current wage levels. In the long run, the variable payments will replace some of the automatic wage increases and outmoded merit raises which have increased labor costs without a related productivity increase.

"The problem in projecting the impact of this trend is in segmenting it into staff levels. At the higher levels, it involves stock options, profit incentives and performance bonus payments. These are usually in lieu of a portion of base salary increases. At lower levels, these are profit-sharing plans, merit raises and productivity bonuses which are usually pure incentives for better performance. The value of the plans is that management perceives it will get more for its money and workers feel that they can get more comparative pay for better or harder work. It doesn't work that way unless the gains on both sides are tangible.

"The problem with variable pay at the non-exempt levels is the perception that the variables are actually transfers from the fixed pay package. As such, they are acceptable in good times but are seen as pay reductions when the payout declines or disappears.

"The real question is whether the attitudes of non-exempt workers can be changed to view the variables as a premium rather than as a transfer. This will not be an easy task as the lower-level employees have an inherent distrust of upper management's motives and methods. This situation makes the common variety of profit-based premiums the most difficult plan to sell and implement. The variables which, in my opinion, have the best chance of success are those in which the individual worker or small teams and groups have a major hand in executing and a sense of 'control' over the outcome.

"I believe the trend will continue but the popular forms will change to make them better understood and accepted by the "foot soldiers'."

The pay increases granted to executive and managerial ranks have been running about 5.5 to 6 percent in 1990, and the same rate of increase is expected in 1991 (see box, "Survey of Surveys," page 15). These figures are noticeably higher than the measurements of actual wage advances among non-managerial workers in 1990. Compensation experts frequently point out that the result of incumbents' job departures, and new promotions arriving, actually reduces the ultimate cost of planned increases such as those reported in the box. Therefore, they suggest, the planned increase is actually an overstatement of ultimate cost to companies.

Nevertheless, the Employment Cost Index (measuring the actual cost to companies) of the U.S. Bureau of Labor Statistics shows a 5.6 percent increase for executives, administrators, and managers in private industry, in the year ending in September 1990. This tends to confirm, rather than discount, the information provided by the survey of surveys.

Occupational Health and Environment

The panel was unanimous in expecting more 1991 regulation of business for environmental protection; and, with the exception of David Lewin, on occupational health as well. Health consciousness is rising, at the same time that regulation has forced out more information about damage to the environment. Recent articles about extra low frequency radiation raise questions about power transmission lines, and about video display screens. The modern "tight" building creates greater indoor air quality problems. All three Californians on the panel referred to the anti-emission regulations imposed on driving in southern California.

Steve Darien specified three subjects for regulation now:

"Issues of occupational health and environmental protection will continue to intensify throughout the decade. There are several reasons: 1) increased public awareness and sensitivity of the potential health hazards associated with air and water pollution, and the workplace, 2) the response of legislators at the local, state and federal level to tighten regulatory controls and punish wrongdoers, 3), the growing environmental and consumer health groups, particularly at the grassroots level, that have been extraordinarily successful in publicizing, and politicizing occupational and community risks created by industry, 4) the empowerment of individuals to obtain information about chemicals and biologicals used, stored and transported by manufacturing firms, and 5) the unrestricted license of informed, but generally technically and scientifically uninformed citizens, to present such data in ways that create the illusion of credible expert opinion.

"There will be more regulation of business concerning worker safety, environment protection, and a range of related health and *ethical* concerns posed by research and manufacturing. During the 1990s, we can expect OSHA [Occupational Safety and Health Act] to more closely mimic the EPA in terms of power and higher penalties for occupational-related injuries, including civil and/or criminal sanctions. Over the next five years, OSHA will highlight 1) indoor air, which is still a turf battle with the EPA but clearly an occupational health issue on which OSHA has been perceived to be weak, 2) fleet safety, considering that over-the-road accidents result in the highest number of occupational fatalities, and 3) process safety management, prompted by recent incidents and focused on prevention and emergency response procedures.

"As for environmental regulations, the impact of reporting of hazardous wastes under the U.S. Superfund Amendments and Reauthorization Act (SARA) Title III of 1986 is just beginning. Under SARA, companies that manufacture more than 75,000 pounds of any of the same chemicals are required to report the release of these chemicals to the air, to water and to disposal facilities to the EPA and their resident states. In addition, the law mandates that a disaster plan for emergency releases be developed and that under a Community Right-to-Know doctrine, the public has access to information about chemicals used, stored and transported by manufacturing firms. Information reported by industries in 1987 and 1988 is now publicly available, and numerous lists have been drawn up to point at the worst polluters of air and water and the largest discharges of hazardous waste to treatment plants. The quantity and composition of industrial discharges will certainly fuel the public interest in pushing for more stringent regulations under the Clean Air Act and other local and state environmental protection statutes.

"Other health-related regulations related to the workplace and environment will be expected to increase in the areas of animal welfare, biotechnology (e.g. genetically engineering plants, animals and pesticides), and genetic analysis as part of employment screening."

Madelyn Jennings expects a very hot regulatory climate:

"There's no question in my mind but that there will be more regulation of business as regards occupational health and environmental damage. There are so many constituencies today interested in these issues, there's no way it could be otherwise. The environment, both in terms of personal safety/lifestyles, the workplace and the planet, has never been of more concern to people in the United States. Some pressure will result in voluntary guidelines and specific standards in such areas as cumulative trauma disorder, video display terminals (radiation, high-frequency sound emission), airborne particles/air quality, water quality, toxic materials and waste, and on and on."

Rex Adams, speaking from an industry with clear environmental involvement, also addressed occupational health protection:

"Legislative proposals will continue to proliferate requiring employers to notify past and present workers of alleged risks of developing occupational diseases. This will require, in turn, costly burdens of increased exposure monitoring, medical surveillance, and administrative procedures. Profiles of worker exposure will become increasingly important as litigation continues to escalate.

"Court rulings may expand the opportunities for injured workers and survivors of deceased workers to seek jury trials for judgments and criminal proceedings against employers for health related claims. Litigation costs and awards are expected to grow.

"There is the possibility that legislation will be passed that would hold corporate officers liable for injuries and deaths resulting from workplace safety violations.

"The general public appears more willing to accept higher costs to achieve a cleaner and healthier environment. Expanding environmental health and safety laws and regulations will change the way the industry conducts its business. These issues will play a greater role in capital investment choices and in product formulation.

"Public concern and government agency scrutiny of industrial practices and products will intensify. Industry can expect a higher level of shareholder, employee, customer and public participation and oversight. There will be increasing calls for companies to adhere to codes of environmental practices, to monitor and publicly disclose their environmental performance, and to appoint environmental managers and/or board members."

European Labor Market Integration

The European Community is moving rapidly toward economic integration in 1992. The emphasis has been on integration of financial systems, although issues involving the labor market are now coming into focus. At present, each of the nations in the Community has its own set of labor protective regulations. Unions, also, differ from country to country, even though pan-European union activity has been organized in some situations. Employer policy and standard operating traditions differ from country to country and, of course, from industry to industry.

Most powerfully, total compensation levels vary widely from country to country, and even region to region within countries. These differences in total compensation are due to two factors: varying labor productivity rates, and varying labor supply-demand situations (the unemployment rates in an area). Theoretically, wage rates that fully reflect these real differences in labor demand and labor productivity will, over time, equalize labor costs per unit of output throughout the Community. Mobility of capital and mobility of labor are fostered, and so is the flexibility and adaptability of employment.

Now, however, a regulatory presence representing the Community as a whole is interested in establishing some overall standards for wages and working conditions. As the standards are proposed, it becomes clear that competition among labor markets is present and probably will continue. The clash seems to be focused on the details within each regulation. For example, one current issue is the minimum hours of rest required between work turns. Others concern benefits for part-time or temporary workers. In most cases, extensive variation in details of national regulation must either be overridden or some compromise reached.

Outlook panel members Dan Mitchell and Steven Darien offered to provide specific discussion of a few points in this broad program to "harmonize" European labor market traditions and regulations. The subjects they covered are important to U.S.-based companies for two reasons: first, most large and middle-sized U.S. companies are operating within the Community, or certainly are competing with Community-based enterprises. Second, the U.S. can learn from closely observing the EC's present efforts to regulate and standardize labor market functioning. The two boxes that follow discuss benefits thinking in the EC ("Employee Benefits and European Integration," by Dan Mitchell, on pages 27-28) and several aspects of compensation and mobility ("Unification of Some Employer Practices in Europe," by Steven Darien, on page 29).

Employee Benefits and European Integration

by Daniel J.B. Mitchell
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There is much hype behind Europe '92 but also much reality. Over a period of time—but not all on one date—European product markets will become more integrated, competitive, and risky. Inevitably, European labor markets will be affected, just as American labor markets were affected, by increased competition and uncertainty in the 1980s.

Two important implications for American human resources specialists will emerge from this process. First, companies with European operations will have to adapt to—and possibly seek to influence—the public policies that are emerging. Second, the U.S. can learn from the diversity of European practices in shaping its own human resources policies.

I. Unification of Social Insurance?

In both the U.S. and Europe, various forms of social insurance (pensions, health benefits, and similar programs) have become linked to work. Some are publicly provided in the form of Social Security. Others are privately provided by individual employers. And in some cases quasi-public national funds outside the formal Social Security system are the suppliers. Each member state of the European Community (EC) has its own unique system. Will greater integration of EC product markets eventually lead to a uniform system of European social insurance—both public and private?

The short answer is "no." EC national practices are simply too diverse and too many employees are already in the pipeline for such unification to occur. Moreover, despite the developing competitive forces, there is little economic pressure to standardize social insurance. Social insurance basically involves the mix of compensation (e.g., how much the worker receives in cash and how much in pension contribution). Competitive forces primarily involve total labor cost, regardless of mix. Competition will create added pressure for standardization of total compensation and/or of practices that affect productivity. That is, the current diversity in practices regarding hours, layoffs, and vacations—policies that influence the firm's ability to adapt to changing market forces—is at risk in the post-1992 environment. Variation in the mix of wages vs. social insurance will be less a matter of economics and more a matter of social policy, politics, and national tastes and traditions.

If substantial cross-border labor mobility were to develop in the post-1992 EC, the economic forces for more unified social insurance would emerge. However, such a development is unlikely in the foreseeable future. Under current law, residents of one EC country may work in another. Limited mechanisms exist for facilitating transfers between basic public social security systems for these workers. Yet language and cultural barriers have held intra-EC mobility to minimal proportions in the past and will continue to do so. In fact, much of the foreign work force within the EC comes from non-EC sources, such as northern Africa and Turkey. The only exception is a growing class of multilingual Euro-executives and Eurocrats, whose mobility is complicated by diverse social insurance practices. But their numbers are—and will be—too small to drive national or EC social insurance policies.

II. Harmonization of Social Insurance?

Growing authority in the EC political apparatus is more likely to bring about harmonization of social insurance rather than unification. Comparisons can be made of such outcomes of social insurance as age of retirement, pension/wage replacement ratios, life expectancy, and infant mortality. Data on these outcomes are already readily available on the health side; on the retirement side efforts at uniform and continuous statistical reporting are just beginning.

As outcome discrepancies are reported and discussed, there will be pressure on deviant countries to modify their results. But such social harmonization is a vague goal and not something for the near future. Moreover, it is widely recognized that the poorer periphery countries within the EC (Portugal, Spain, Greece) cannot be expected to produce the same social outcomes as the richer core countries.

While social harmonization is at best a distant objective, financial harmonization is on a faster track. Private pension funds (in those EC countries that use them) can be significant financial institutions, just as they are in the U.S. It was quickly realized that efforts to create a common market in financial services could not ignore these funds. Large multinational firms have an interest in creating EC-wide pension funds to achieve economies of scale in investment and administration. Such funds would follow the laws and practices of each member nation with regard to benefit amount and eligibility, but they could pool the company's financial resources in a single "pot." Banks, insurance companies, and other providers could compete across borders to provide services to private pension funds or individuals using tax-advantaged retirement savings arrangements. Financial harmonization in the employee benefits area is a likely near-term result of Europe '92.

III. Internal Social Insurance Arrangements

In the U.S. we have come to associate health insurance and pensions with the job, largely because our tax code provides strong incentives for employers to provide these benefits. The European pattern is quite different. In some countries, health benefits are not linked to the labor-market at all (e.g., Britain with its national health service). British employers have no special involvement with the health service. They do not even pay payroll taxes to support it, since the service is funded from general government revenue. Thus, a typical British employer wouldn't know an HMO from a PPO, has never heard of managed care, and does not worry about health care cost containment. In other countries, such as France, health care benefits are handled through national insurance mechanisms. Employers may worry about the magnitude of the payroll taxes or premiums which support these mechanisms, but they have little day-to-day involvement in administration.

With regard to pensions, Europe is moving away from the American view that private retirement systems should be job-related and toward the idea that such systems should be work-related. That is, even private retirement systems are being encouraged (or required) to provide truly portable pensions on a near-universal basis. Those countries that provide pensions almost exclusively through public or quasi-public national systems (France, Italy) have long had portable pensions. Ironically, despite their collectivist origins, these systems mesh well with a free labor market. Even those countries with traditions of private, company-by-company pensions are rearranging those systems to operate as if they were unified systems.

Two issues arise in pension portability and job mobility: vesting and benefit formulas. Under current American practice, vesting typically occurs after five years of seniority. Workers who leave before reaching the five-year point acquire no rights. So individuals who frequently change jobs may have no pension entitlements even though they worked under several pension plans.

Even those workers who do vest are disadvantaged under the U.S. defined-benefit system, if they change jobs in mid-career. Eventual monthly pension benefits are commonly determined with reference to final earnings in nominal dollars. Inflation, even at modest rates, quickly erodes the real value of pension rights that were acquired years ago. Thus, a career of three consecutive ten-year jobs will lead to a pension substantially lower than one job for thirty years. European employers are being pushed to provide for interplan financial transfers on behalf of job changers so that the American-style bias against the outwardly-mobile worker is reduced or eliminated. Similarly, European health benefits typically do not exclude "pre-existing illnesses," a feature of American job-related health insurance that can inhibit labor mobility.

IV. Lessons for the U.S.?

In broad terms, European social insurance problems mirror those in the U.S. Baby boom demographics will raise the proportion of the elderly who will have to be supported by active workers early in the next century. Should steps be taken to reverse the trend toward early retirement? Health care cost containment is a problem, even if individual employers don't have to worry about it. If access to health care is not rationed by price to the consumer, how will it be rationed? Obviously, countries can learn from each other as they wrestle with these dilemmas in the future.

But the European approach to creating portable pensions and health insurance is something that Americans should be studying now. When the winds of competition blew through the American economy in the 1980s, employers began to back away from the promises of job security and paternalism on which the American pension and insurance system was based. Employee mobility—both voluntary and involuntary—increased. This increase exacerbated problems of pension vesting, inflation-eroded pension benefit formulas, and pre-existing illnesses under health plans. Health coverage for laid-off workers became a topic of controversy.

Consider in contrast, British social insurance arrangements. Under recent reforms, company pensions now have vesting at two years. So even persons with relatively short job attachments acquire rights. Individuals can opt out of either company pensions or equivalent public arrangements and have their own individual pensions instead. These individual pensions—essentially defined contribution plans—are 100 percent portable. For health service, eligibility is not connected with employment and therefore does not impede job mobility.

Many of the economic forces that were felt in the U.S. in the 1980s were also experienced in Europe. The projection in Europe, however, is that the integration symbolized by Europe '92 will create still more pressure. Companies will have to restructure and then restructure again as markets become more competitive and more uncertain. Some companies won't survive. Others will thrive and hire the work forces of those who fail. Europe '92 is likely to produce an upsurge in labor mobility within each country. Social insurance arrangements must therefore be work-related, not job-related.

In the global economy, whose social insurance arrangements are more in accord with competition, Europe's or the U.S.? Europe is acquiring the edge.

Unification of Some Employer Practices in Europe

by Steven Darien
Vice President, Human Resources
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Wage Levels

We believe that in the near future we will see the maintenance of a market-driven cost of labor. Until such time as monetary union (European, as opposed to country-by-country) cost of living is established, each market will retain sufficient differences in its structure to ensure the continuation of a market price that reflects purely local (i.e., single State) considerations. Thus, true variations in productivity and labor supply will continue to determine wage levels but within the confines of existing market place dynamics.

There is some evidence that there is a gradual convergence of net disposable income at key executive levels. It is likely that such convergence will continue as the incidence of cross-border mobility accelerates among senior managers.

One interesting exception to a purely market-driven price may occur (and to some extent has already occurred) in those plants located close to state borders. For example, Portuguese factories close to the Spanish border may find that to attract the local labor supply they will have to offer wages similar to those paid by a nearby Spanish plant. Companies operating in the French area around Annecy have for some time felt the impact of higher wage rates offered by nearby Swiss employers.

Job Loss

The Social Charter establishes the right to "adequate social protection" and financial protection through social security benefits that are proportionate to age and length of service. The Directives also give rights of consultation in the event of impending closures, and impose certain procedural obligations where redundancy becomes inevitable.

Our feeling is that current practices adopted in regard to consultation and compensation for loss of job by multinational organizations far exceed that required by present or future law. Any new legislation in this area will not require any major rethinking by such companies in the event of job losses.

Vacations

The Social Charter gives an indication that future EC legislation and regulation will do nothing more than establish the right to paid vacations. It is most unlikely that any attempt will be made to establish pan-European vacation standards that will impact the practice of multinationals. As it is, we exist quite openly with different vacation entitlements among companies operating within one Member State, let alone all twelve States.

Management Consultation with Employees

Any change in the current climate and style of union-management codetermination is more likely to be driven by change in legislation than by any natural social change from within. Two important draft directives, which should be viewed together (the European Company Statute and the Fifth Directive on company law) are designed to encourage across-the-board employee participation.

The European Company Statute creates a new pan-European legal entity, generally known as an SE (Societas Europeas), that brings with it certain fiscal and accounting benefits. In return for such benefits, companies wishing to create their own SE will have to apply one of three given models of employee participation. Each model gives, to a greater or lesser extent, an active involvement of employees in certain decisions affecting the future of the SE and certain rights of consultation through employee representatives.

The Fifth Directive consolidates those rights of participation and goes on to establish other rights of representation.

There is a third and somewhat controversial directive, coloquially known as the Vredeling Directive, which seeks to establish a series of rights giving all employees information on company results, employment situation and foreseeable development. It also seeks to ensure that employee representatives should be consulted by management "in good time" before decisions that are likely to have substantial effect on the interests of workers.

Clearly the adoption of any or all of the above will have a marked effect on the existing, varied processes of union-management codetermination—within the European Parliament, the Council of Ministers, and to some extent the Commission itself. The Commission's President, Jacques Delors, is committed to delivering some sort of progress toward codetermination.

Word on the street suggests that if the fiscal benefits of adopting an SE status can be beefed up, the European Company Statute stands a chance of being adopted by the Council of Ministers. Vredeling, however, remains on the back burner for the time being.

Economic Adversaries

With a general prospect of no economic growth during 1991, and possibly low growth thereafter, equity conflicts may occur. The outlook panel considered some of the difficulties that could develop politically, socially, and even within corporations. Rex Adams described this in general terms:

"One of the most troubling consequences of economic stagnation is the inevitable tendency to adversarial conflict between social groupings. I lived and worked in the U.K. during the late '60s and early '70s and witnessed first hand the embittered politics of resentment and reaction that contributed so markedly to British economic decline and loss of social confidence. In their case, the conflict was rooted in their class system and found expression in the political arena through the policies of political parties built squarely on the principles of class interests. In our case, the conflicts between contending groups arise from the adversarial traditions of a litigious society.

"In periods of relative economic decline, the issues of distributional justice arise and the clamorous process of more people fighting over less pie begins in earnest."

There is developing conflict over supporting the retired, as the burden falls on workers. The ratio of retired to employed does not start to rise until the end of the '90s, yet David Lewin thinks the pressure is already on:

"The ratio of retirees to workers is increasing in several developed countries, not only the U.S., which presents a key problem: how does a nation finance retiree benefits and living standards with a shrinking support base? I believe that this issue will sharpen in clarity and importance in 1991, irrespective of the state of the economy. A country which faces this problem more severely than the U.S. is Japan. However, the limits to income transfers from workers to retirees will become more apparent in the near-term future across a range of developed countries."

Irving Margol mentioned two areas of conflict: benefits (including health care), and employment opportunity (when the benefits are insufficient for support):

"We are already seeing these adversaries in play as Congress addresses the budget and deficit issues. As the population of retired persons continues to grow, allocations of social funds like Medicare may also grow. Since the government will need a larger source of funds, the workers may see a decrease in their disposable income due to an increased tax, setting up adversary relationships.

"At Security, we see those roles played out in two areas: (1) benefits and (2) employment opportunities. Free health care insurance is given to our retirees. The workers feel that they are paying for part of this in their increased premiums.

"We see a slowdown in the number of early retirements and a slight increase on workers staying on past age 65. As this occurs, the younger work force see their opportunities put on hold."

Mitchell Fromstein pointed out that the nucleus of the recent Section 89 regulation (since rescinded) was pension plans. He suggests that: "The future will require a pension system that is mandatory, homogeneous and portable."

Gene Remoff predicted that the clash over support of the retired will not develop during the first part of the 1990s:

"Much of this battle won't come into focus in the next four years. Later on in the 1990s the demands on a relatively smaller work force to provide services for a relatively larger retired population would be a very aggravating burden if these workers experienced no rise in their own living standard. The burden would build, most likely, on two fronts, higher taxation to support transfer payments and higher-cost, longer periods of personal support for aging members of their own families.

"On the other hand, there are many older citizens (although not the majority) who have accumulated considerable net worth that they will not consume in their own lifetimes—for example, the succeeding generation of supporting workers may often be looking at a substantial inheritance, even if it's just their deceased parents' home."

Gene Remoff identified as adversaries the poor vs. the self-sufficient:

"The condition of the poor has taken on a set of characteristics that didn't exist in the prior history of this country. These characteristics have the look of permanence. They include deteriorating educational preparedness in the face of escalating skill demands of better-paying jobs, habitation in isolated ghetto areas that are removed from access and proximity to the most attractive employers, and a lack of leadership in local, state and federal governments willing to put funding to address these issues at the top of their list of priorities.

"The self-sufficient, therefore, not only see their taxes consumed in non-productive government spending, but are bound to see a portion of the GNP they produce consumed by welfare payments that do not move members of the poor population into a participating productive partnership in the economy.

David Lewin and Madelyn Jennings pointed out that the middle class, with political involvement, dominates any "class struggle" in the United States. Lewin said:

"Middle-income workers view their taxes as supporting the poor and subsidizing the rich; as providing social benefits to groups at the 'extremes'; and as supporting government programs which draw down their resources without necessarily providing offsetting or compensating social benefits. Hence, I expect to see sharpened conflicts in 1991 between middle-income workers and other worker groups, high and low, rather than between high and low income workers, per se.

(Madelyn Jennings):

"You might add to your adversary groups the underclass vs. middle/upper class with issues at contention including social benefits, educational equity and economic burden. And then there are the knows vs. the know-nots with similar issues at contention. Obviously, what happens to these new adversarial divisions under conditions of stagnant economic growth, no rising standard of living, is that they worsen when the pie shrinks.

"There is another adversarial relationship deepening between business and government as each seeks to contain costs in the face of more and more critical social problems (illiteracy, medical care, education, etc.). We must forge more alliances between business and government if we are to solve some of these problems."

With respect to economic competition between women and men, Gene Remoff observed:

"In the work setting, the struggle intensifies if economic growth slides markedly for any period of time and slows down job creation. Women need to count on jobs opening in higher paid categories under conditions where there aren't enough qualified males available. This, I'm afraid, is what is needed to pull them through—or remove the glass ceiling."

David Lewin suggested that the U.S. is less likely to see such a struggle than other industrialized countries:

"The issue of men vs. women is more pressing abroad. Western European firms have far fewer female managers than U.S. firms, and have progressed far less on female employment generally than has the U.S. The rejection by young Japanese women of traditional male-female roles in that country is becoming more apparent, and will work its effects on employment relationships. And, in recognition of globalization, consider male-female work roles in Eastern Europe and the Mideast. By these comparisons, I judge U.S. male-female conflicts to be of a modest order."

The conflict between domestic interests and international trade interests is likely to continue in 1991. For example, Dan Mitchell pointed to the concern over foreign direct investments, suggesting that auto "transplants" compete, just as much as imports, with GM-Ford-Chrysler. Gene Remoff discussed protectionism:

"U.S. industrialists, trade unionists, and any associated reactive politicians who will seek to protect a favored position for domestic producers in the face of more efficient and effective sources elsewhere on the globe, will struggle with those who are world-oriented in their economic outlook. A dimension of effective leadership of a business enterprise is 'staying in touch with reality'. The U.S.S.R. (or a successor confederation of Soviet republics) will, after a few years of pain, be a major economic force with its technically well-educated population, massive natural resources and huge potential markets. And what about China?"

Mitchell Fromstein concluded the discussion with a proposal for a constructive business role:

"Present conditions require more conciliation and compromise between the adversarial groups than ever before (perhaps with exception of the 1932-35 period), and yet, we are moving in an opposite direction exacerbated by a press and politic who are insensitive to the dangers of extreme positions.

"In a very real sense, these adversarial relationships are played out each day in the workplace. Certainly, the conflicts between genders, ethnic groups, age groups, and earning levels are present and visible to anyone who cares enough to see them. Even the ultimate conflicts between the employed and unemployed relate to workplace factors when layoffs, mergers, restructuring, etc., take place.

"While the private sector can't solve all of these problems to everyone's satisfaction, I believe that human resources policies, if carefully designed and executed, can defuse much of the adversarial perceptions. We have dealt in this panel with the hot issues of health care, civil rights, pensions, and other entitlements, as well as with unemployment and the impact of a potential recession. Are these not the basic root causes of the adversarial problems?

"Has the time come for private business as a whole to address ways in which it can defuse adversaries with whom it deals and adopt policies and practices to minimize the sense of difference in equity between the groups? It is not an easy task when profitability is pressured by these efforts. I believe, however, that there is a middle ground where business has an important psychological role to play to avoid government intervention—or perhaps worse."

The 1991 outlook is subdued by economic stagnation. Also, there is discouragement that public initiatives have not meliorated social problems—so social costs are becoming a burden to business. This is true of health care, education, equal opportunity, and old-age dependency. All of this comes at a time of fierce competition, when most businesses are intent upon cost-cutting rather than burden-assuming.

Nevertheless, as Mitchell Fromstein suggests above, business cannot escape the society and must take a leadership role. Some of the constructive ideas in this report, and in the *1990 Human Resources Outlook*, need to be adopted by more business leaders and brought to a point of success.

The Conference Board
845 Third Avenue
New York, N.Y. 10022

R4105-78.7 F

2/91

The Conference Board

Report Number 960

North America: The New Competitive Space

- *United States, Canada and Mexico are evolving toward a single "North American Competitive Space"*
- *Trade and investment in region will increase*
- *New trade agreement would accelerate integration*
- *Market forces may lead to greater policy coordination*
- *North American economic integration has important implications for business strategy*

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Printed in the U.S.A.

ISBN No. 0-8237-0407-6

North America: The New Competitive Space

by Charles R. Taylor

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Author's Acknowledgments

The author gratefully acknowledges the contributions of Nicholas Afonsky, David Chon, Stephen Reitsma, and Derrick Willman.

The author also would like to thank Dr. Oscar Vera Ferrer, Chief Economist, Grupo DESC, Mexico City, for his valuable assistance.

From the President

The U.S.-Canada Free Trade Agreement signed in 1988 established the first precedent for broad, formal trade and investment liberalization within North America, and, indeed, within the West. Negotiations between the United States and Mexico, joined by Canada, to eliminate tariffs and to open markets, create the prospect for a new North American Competitive Space that could change, fundamentally, the dynamic character of the region and have a lasting effect on the global competitiveness of North American business.

The Conference Board is pleased to have joined The Conference Board of Canada in preparing this report which summarizes the status of regional trade relationships and identifies key issues for business strategy. It is not a detailed study of these possible gains and losses, nor does it estimate the effect of greater regional integration on the economic performance of the countries involved. Rather, it is intended to provide a general framework for thinking about the evolution of a wider market within North America and assessing the impact of this market on business thinking.

The rules governing trade and investment are not static; they change, not only in response to formal initiatives among countries, but also as a consequence of the trend toward freer markets and deregulation within individual countries themselves. Greater economic integration in North America is likely by virtue of the opportunities it offers and the progress already achieved in reducing barriers to trade and investment. The question is, exactly how, and in what form, further integration will come about.

We wish to acknowledge Gail Fosler, Chief Economist and Executive Director, Economics Program, The Conference Board, and Charles Barrett, Vice President, Business Research, The Conference Board of Canada, for their cooperation and contributions as the project directors of this report. This will be the first in a series of research reports to discuss business opportunities and economic performance within the new North American Competitive Space. Others will appear in the months ahead, as events unfold.

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Executive Summary

Global competition and the growing importance of trade are powerful forces driving the economies of the United States, Canada and Mexico toward substantial integration. The three countries have broadly similar political and economic institutions, yet their economies are strikingly different. Canada and the United States are highly developed compared with their southern neighbor, and have substantially higher general income and education levels. Cross border trade and investment flows have increased rapidly during the 1980s, in part because of the opportunities for firms throughout the region to reduce costs by combining capital and skilled labor from the United States and Canada with relatively less skilled, but far less costly, labor from Mexico. Still, protectionist concerns and greater regional integration in Europe prompted the U.S. and Canada to enter into a Free Trade Agreement in 1988. A similar agreement is now under consideration between the United States and Mexico.

The U.S.-Canada FTA removed all tariff and most non-tariff barriers between the two countries. Tariffs will be fully phased out by 1998. Preparations for negotiations between Mexico and the United States are well advanced. They could start and end this year and an agreement might be enacted by 1992. Sensitive areas include agriculture, textiles and energy. Canada may be involved in the negotiations, though to what extent is not yet clear.

The collapse of the GATT Uruguay Round of trade negotiations last December is only likely to increase the pressure for closer economic ties within the region. Just how quickly or how completely natural and institutional forces will dissolve the national boundaries that subdivide the continent is unclear. But it does seem certain that the regional economy will gradually evolve into a single "North American Competitive Space."

Regional integration could take many paths. However, there are three main "futures" which define the range of issues business will face as trade and investment ties intensify within the region.

- The formal negotiations between the United States and Mexico are aborted (due to U.S. congressional opposition). In that case, regional integration will continue to be driven by the commercial interests of individual firms and industries.
- Mexico joins the United States, and possibly Canada, in a free trade agreement resembling the U.S.-Canada FTA. It may or may not exceed it in scope, depending on which sectors are exempted.
- In addition to Mexican participation in a free trade arrangement, there is further policy coordination. One possibility is that the peso is stabilized against the U.S. and Canadian dollars. Liberal trading and investment arrangements may be extended to include other countries. Or, perhaps least likely, a customs union could be negotiated whereby Mexico, Canada, and the United States would have the same external tariffs.

Trade and investment should continue to grow regardless of which future comes about. With Mexico's unilateral cut in tariffs to levels consistent with Canadian levels prior to the FTA, tariffs are generally not a significant barrier to trade. Still, there is a danger of selective protectionist backsliding in the absence of an agreement.

The most important consequence of a new Free Trade Agreement is the right to establish and compete in markets now protected by nontariff barriers. This would accelerate the pace of regional integration. The most immediate and direct impact to the United States would probably occur in regions with lower wage workers. But the net effect on the U.S. economy is likely to be less significant than that of the U.S.-Canada FTA. Longer term, the dynamic effect of increased competition will lead to investment decisions that use the regional resources more efficiently and improve growth and lower inflation for the region as a whole.

If policy coordination goes further, trade and investment flows should accelerate rapidly. For example, if exchange rates are stabilized and inflation rates converge, currency risk would diminish, making it easier for companies to predict prices and profits. Moreover, lower currency risk and higher investment will reduce the cost of capital to Mexican firms.

While the three "futures" will affect differently the speed and completeness of a North American Competitive Space in the near term, much will remain unaffected by the course of formal negotiations: (1) the U.S.-Canada FTA is likely to be fully implemented; (2) significant harmonization of social systems is unlikely; and (3) tax policies are unlikely to converge in a formal sense, although competitive pressures may bring effective tax rates closer.

In all of these ways, businessmen operating in the North American competitive space are likely to face costs and inconveniences that their European counterparts do not. Even so, North American businessmen—in some ways—are better positioned. For example, they have similar accounting and industrial standards in the three economies, increasingly similar tastes, and an increasingly well-integrated infrastructure.

The Implications for Business

The strategic implications of rapid regional integration will be far-reaching:

- Business will have to rethink the definition of "domestic market." Effective competition may appear anywhere in the region and challenge established positions in home markets. More region-wide intelligence will be needed.

- Canadian and U.S. firms will have to take Mexico's dynamism directly into account in their planning, and many will have to accelerate sales growth to maintain or increase share in their more broadly defined "domestic" market.

- Regional markets are presently losing their national character as they cross national borders. As a result, strategic business units will become "border blind" with respect to basic production, distribution and marketing decisions.

- There will be new business opportunities. For example, the upgrading of Mexico's infrastructure should benefit U.S. and Canadian engineering and construction companies, and banks and other financial services should benefit from rights of establishment throughout the region.

- Firms based outside the region will not ignore the efficiency and market advantages of greater integration. The challenge for U.S. and Canadian firms will be to use their improved access and geographic proximity to preempt investment by third countries in Mexico.

- Greater regional integration will lower the cost of capital to Mexican firms. And, as Mexican capital markets develop, the range of financing options will broaden. Financial strategies for many Mexican firms will need reappraisal.

- U.S. and Canadian firms that have invested in Mexico expecting that high tariff barriers would keep out other foreign competition must redeploy their assets, if they have not already been hurt by Mexico's trade liberalization.

Regional integration is a force for the future. What is at issue is how fast and broadly integration proceeds. At some point, the combination of new competitive pressures and new regional opportunities will drive chief executives to redefine the nature of their businesses. Those that recognize this early on are more likely to succeed in the new North American Competitive Space.

Introduction

The United States, Canada and Mexico together span a continent of more than 7.8 million square miles, with many climates and abundant natural resources, and a total of 350 million people who produce a combined gross national product (GNP) of nearly $6 trillion. While it is true that they have been divided by differences of culture and language, together they share a history of colonization that has led to independence and democracy, similar political systems and, increasingly, economic institutions that have fostered commercial links among the three over the years.

Yet, in many ways, their economies are strikingly different. Canada and the United States are highly developed compared with their southern neighbor, and have substantially higher general income and education levels. They have a better developed infrastructure, and their economic activity is more concentrated in services than is Mexico.

This has been the pattern for the past century. Now it seems powerful forces are at work, moving the three economies toward substantial integration. The volume of cross-border trade and investment flows rose during the 1980s, and increased in sophistication and complexity. Toward the end of the decade, the United States and Canada entered into a Free Trade Agreement (FTA). A similar agreement is now under consideration between the United States and Mexico. Just how quickly it will emerge is unclear. **Chart 1** (page 10) summarizes the current demographic and economic characteristics of the continent. In time, this continental economy should evolve into—what might be termed from a business perspective—a single "North American Competitive Space."

With a U.S.-Mexico FTA in sight, it is timely to consider what this space may comprise, how it might come about, and some of its implications for business. Greater regional integration will have a significant effect on the competitive environment in the region and beyond. The experience of the 1980s in North America, and elsewhere, suggests that trading relationships among nations change either formally as a result of negotiated agreements, or informally as a consequence of economic self-interest. They do not stand still.

This report provides a succinct overview of the forces at work in the process of North American economic integration, and looks at three "futures" which serve to illustrate the main issues at stake:

- First, U.S.-Mexico negotiations are aborted and economic integration follows an ad hoc course, based on individual business and sector interests;
- Second, Mexico joins the United States and Canada in a free trade area in due course; and
- Third, a further coordination of other economic policies, such as labor, fiscal, monetary and exchange rate policies, evolves.

It is impossible to predict which of the three "futures" will come about. It *is* possible that there will be a mix of the three; for example, Mexico might take steps to stabilize the exchange rate of the peso with the U.S. dollar. However, there could also be no free trade agreement—a mixture of "futures" one and three. But none of the substantive issues are lost by focusing just on the three futures themselves.

Of the three, the one in which the United States and Mexico negotiate a FTA that includes parallel treatment for Canada seems the most likely. There are, however, many forces that could disrupt the negotiations, or the legislatures of the signatory countries could fail to ratify an agreement. So the first future is still quite possible. Least likely is the prospect of fuller economic integration in the near future.

After exploring the forces behind integration more fully, this report provides a detailed description of the three possible "futures" of a North American free trade agreement, and their different economic consequences. It concludes with a section on implications for business strategy.

Chart 1 The North American Economies, 1989

Demographics

	United States	Mexico	Canada	North America
Population, mil.	249.4	84.3	26.2	359.9
Growth Rate (%, annual avg. 1980s)	1.0	3.2	1.0	1.5
Age Distribution (% of Total) (1)				
0 - 19	32.4	54.4	30.8	37.4
20 - 44	36.9	31.4	40.5	35.9
45+	30.7	14.2	28.7	26.7

Economic

	United States	Mexico	Canada	North America
GNP/GDP (U.S.$, bil.)	5,324	147	529	5,910
GNP/GDP per Capita (U.S.$) (2)	20,986	2,389	20,186	16,572
Inflation Rate (annual % change)	4.8	20.0	5.0	5.3
Real Growth Rate (%, annual avg.)				
1980s	3.3	0.5	3.3	3.2
1990-91	0.7	2.8	0.4	0.7
Sector Share of Output (% of total) (3)				
Agriculture	2.1	9.0	3.1	2.4
Mining	1.9	3.9	6.0	2.3
Industry	32.8	31.6	30.6	32.6
Services (incl. govt.)	63.2	55.5	60.3	62.7

Employment, Productivity & Infrastructure

Employment & Productivity	United States	Mexico	Canada	North America
Employment Growth Rate (%, annual avg. 1980s)	1.8	3.2	1.5	2.0
Manufacturing Wage (U.S.$ per hour)	14.30	2.30	14.70	12.10
Productivity Growth (GNP/employment) (4)	0.5	1.6	1.0	0.6
Infrastructure				
Total Land Area (million sq. miles)	3.5	0.7	3.6	7.8
Miles of Paved Highway (per 1000 sq. miles)	1118	54	44	530
Miles of Railroad (per 1000 sq. miles) (5)	47	17	14	29

Sources: IMF International Financial Statistics, OECD Economic Survey for Canada and the U.S., World Bank World Development Report 1990, ILO Yearbook of Labor Statistics, U.S. State Department, Economic Trends Report, Mexico 1990.

Notes: *(1) Mexican and U.S. data are from 1980 census. Canadian data are from 1986.*

(2) 1989 GDP per capita in current U.S.$.

(3) U.S. data for 1987 in current dollars, Canada data for 1988 at current factor cost.

(4) Mexican figure is an average for 1981-1987. North American total is a weighted average based on GNP/GDP.

(5) 1.435-meter standard gauge railway.

Methodology for North American aggregate data: Simple sums and averages are used for aggregate data for North America where appropriate. When aggregate measures would be affected by the size of the economy or the population, weighted averages are used.

The Forces for Integration

The historical forces for integration in North America are partly those which have been driving world trade growth for the past 50 years, and partly those inherent in the proximity and competitive advantages of enterprises within the United States, Canada and Mexico.

Since the Second World War, world trade has grown at roughly twice the rate of world GNP, and trade between the three countries is no exception. In many industries, the advantages of creating larger firms or markets that straddled national boundaries outweighed the additional associated costs. These advantages came from: economies of scale within enterprises; the profitability of rolling out products in a series of dynamic national market situations; and the ability, in more recent years, of international enterprises to take innovations in product design, management and service developed in one national market, and apply them to others.

The international division of labor and pattern of trade and investment have grown exceedingly complex; in part, because modern information and communications technology has made it possible. Much trade now occurs between different divisions of the same company. Much is in intermediate goods. Old notions of national comparative advantage count for less than in the past.

Formal Trade Agreements

Also important has been the General Agreement on Tariffs and Trade (GATT), which was established at the end of the Second World War. Under the GATT, a series of multilateral trade negotiations achieved a gradual reduction in the level of tariff and non-tariff barriers to trade among member countries. Canada and the United States were early supporters and signatories of the GATT. Until the mid-1980s, Mexico was not a member and relied on a strategy of import substitution that tended, if anything, to inhibit trade.

During the 1960s, the opportunities for trade within North America led to additional formal arrangements outside of GATT. Most prominent among these was the Auto Pact that the U.S. and Canadian governments signed in 1965. The pact was designed to ensure Canadian worker participation in U.S. auto production in exchange for freer market access for finished U.S. vehicles in Canada.

Just a year later, in 1966, the U.S. and Mexican governments established the Maquiladora scheme, whereby U.S. manufacturers could set up facilities in bond in northern Mexico, to use imported parts, assemble them and re-export them to the United States. Subsequently, the scheme was broadened in 1972 to cover all of Mexico. In this way, U.S. manufacturers could take advantage of relatively low Mexican labor costs and at the same time avoid paying any Mexican import or export duties.

Natural Forces

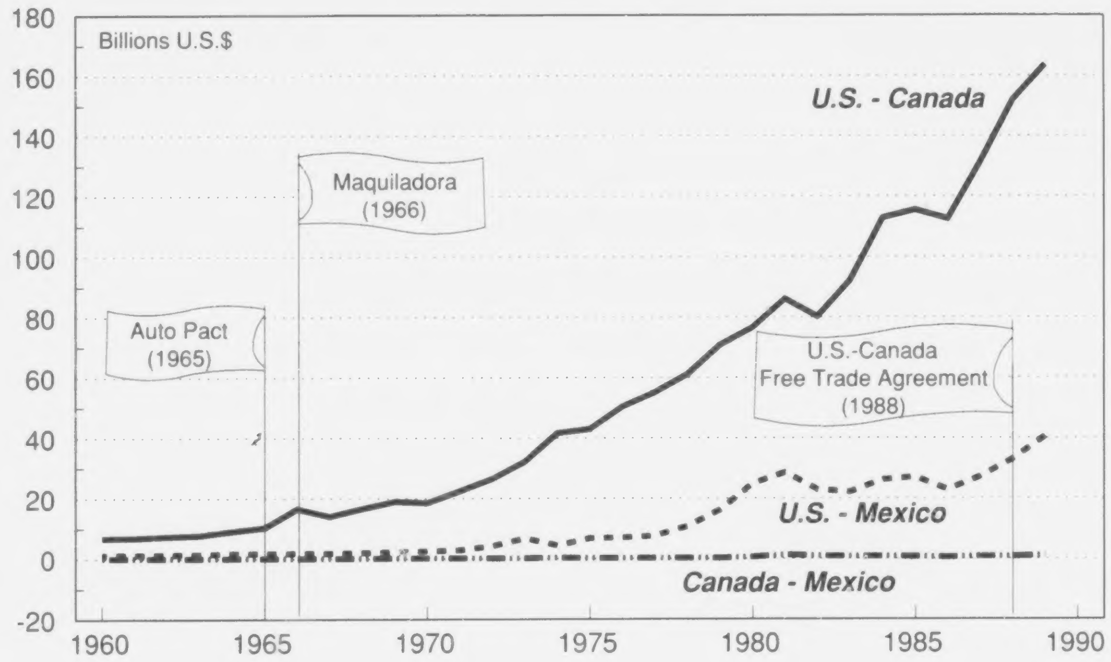
Aside from these agreements, the integration of the three national economies was, primarily, the result of natural forces rather than the institutional forces of formal arrangements. **Chart 2** (page 12) shows the growth of trade among the three countries.

In the 1980s, however, conditions changed. Canadian manufacturers, who were increasingly dependent on access to U.S. markets, became apprehensive about rising protectionist sentiment in the United States that might affect two thirds of their trade. This came to a head when the *Omnibus Trade Act* of 1986 was under consideration in U.S. Congress. Even though legislation was not particularly restrictive, the Canadian government concluded it was urgent to strengthen access to U.S. markets.

When trade discussions were initiated, the U.S. Administration was quite receptive. It had a strong commitment to trade liberalization and there had been relatively few trade frictions with Canada. Moreover, some U.S. industries wanted improved access to the Canadian market. Discussions began in earnest in 1986 and the U.S.-Canada FTA was signed early in 1988. Meanwhile, as a result of a drop in oil prices and an eruption of the debt crisis, the growth of the Mexican

Chart 2

Growth in North American Trade (1960-1989)



Source: IMF Direction of Trade Statistics Yearbook, various years.

economy came to a halt in the early 1980s. After increases in GNP that averaged more than 8 percent a year for the previous four years, the economy stagnated in 1982 and contracted by 4.2 percent in 1983.

There followed a difficult period when the entire direction of Mexican economic policy was reoriented. The Mexican government gave up its reliance on import-substitution and state-owned enterprises, and turned instead toward private enterprise and exports. In 1985, Mexico began to lower several of its trade barriers unilaterally. Its average, effective tariff rates (i.e., the average protection tariffs provided to Mexican industries as opposed to Mexican goods) fell from nearly 30 percent to around 10 percent three years later. In 1986, Mexico acceded to the GATT and undertook to observe its principles of non-discrimination, progressive liberalization and dispute settlement. **Chart 3** shows how average tariffs in Canada, the United States and Mexico have fallen during the decade––especially in Mexico.

When Carlos Salinas de Gotari became president in 1988, the pace of reform accelerated. His administration reformed and privatized the banking system, freed foreign exchange, accelerated the pace of privatization, and cut public sector deficits. By the time he met President George Bush in June of 1990, he had negotiated a series of sector agreements with the United States. It was natural, then, that Mexico should seek a formal treaty for free bilateral trade as an opportunity to lock in the reforms it had instituted. **Chart 4** (page 14) chronicles the history of Canadian and Mexican trade negotiations with the United States since 1965.

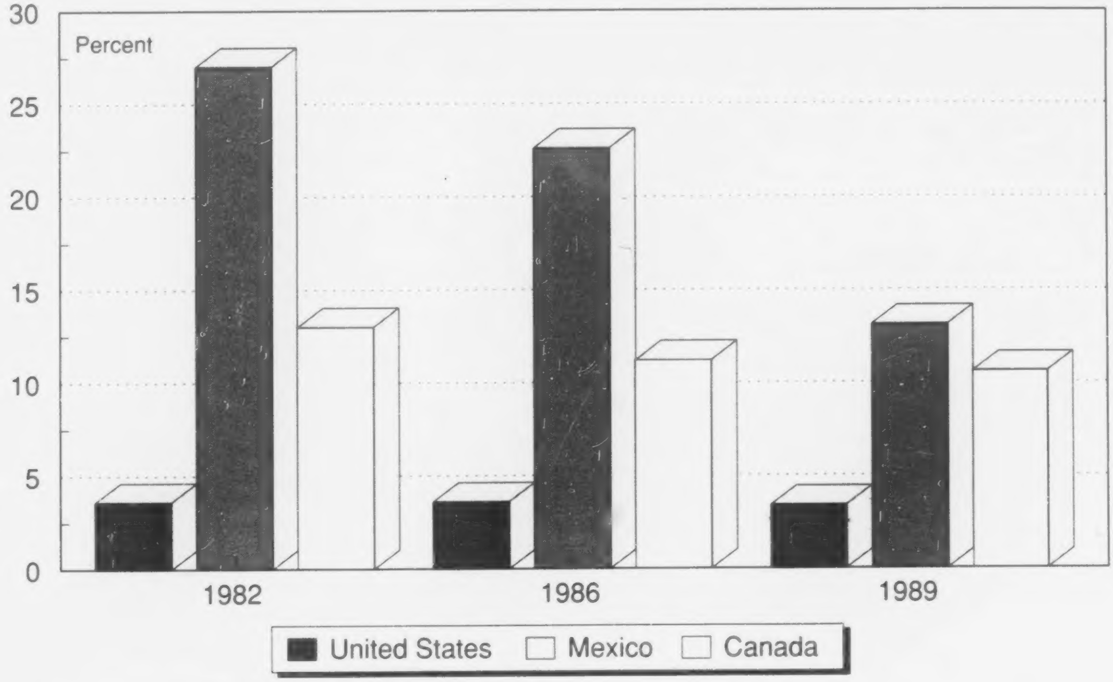
Since then, the GATT Uruguay Round has floundered. Whether or not it is revived, Mexico's GATT membership must now seem a less reliable guarantee of further access for its exports to industrial country markets in general. Therefore, in addition to locking in recent economic reforms, the urgency of providing its manufacturers with U.S. market access—more than 30 percent of Mexican exports are manufactured goods—has increased.

Just as the Reagan Administration had been receptive to Canadian government initiatives, the Bush Administration was similarly receptive when Mexican authorities first broached the idea of a free trade agreement.

The administration had been impressed by the pace and determination of Mexican reforms and was looking

Chart 3

Average Tariffs in North America



Source: U.S. Department of Commerce, International Trade Administration, U.S. International Trade Commission, Mexican Foreign Ministry, Statistics Canada.

for a vehicle to provide support—but was constrained by its own budgetary situation. A free trade agreement cleared the way to provide support without incurring additional budget costs. Moreover, they felt that improving Mexican economic prospects might reduce the pressure of migration from the South, which had been a high profile policy issue between the two governments for some time. By 1988, an estimated one million Mexicans illegally resided in the United States.

Emerging Trade Blocs

When they looked further afield, U.S. officials saw evidence of increasing regionalism in Europe and the Pacific Rim. Because of its EC-1992 initiative to create a single economic "space," the Community had enjoyed a noticeable rise in investment and growth, as businesses sought to take advantage of prospective economies of scale in marketing and manufacturing. Japanese investment in its neighboring countries was having a similar stimulative effect in Asia.

All three North American governments oppose this global trend to regionalism, which carries with it the risk of greater barriers to trade and investment between the regions. The United States has countered this tendency through its efforts to ensure open access for its services and products in all regions. Together with Canada and several other nations, it also joined the Asia-Pacific Economic Cooperation Organization in an effort that cut across the regional divisions on either side of the Pacific. The Organization was set up three years ago as a result of an Australian initiative to explore ways to establish better economic relationships throughout the Pacific.

Any new trade agreement in North America will probably be crafted to conform with GATT Article XXIV, which permits regional trading arrangements. The U.S.-Canada FTA passed that test.

Still, it does appear that a tripartite world is emerging—dominated by Europe, North America and a regional group clustered informally around Japan. Indeed, trade has grown more rapidly within, rather than among, the three regions. **Chart 5** (page 15) compares the relative size and dynamism of the economies of North America, the region around Japan, and the European Community. Therefore, it may be

Chart 4

Chronology of U.S. Regional Trade Negotiations

1965
- U.S.-Canada Auto Pact signed.

1966
- Mexican Border Industrialization (Maquiladora) Plan instituted.

1985
- U.S. & Mexico negotiate Understanding on Subsidies and Countervailing Duties.
- Mexico begins unilateral program of tariff liberalization.
- Reagan and Mulroney set timetable to reduce barriers to U.S.-Canada trade.

1986
- Reagan and de la Madrid agree to open talks on U.S.-Mexico trade and investment.
- Mexico joins the GATT.

1987
- Mexico signs GATT codes on standards, licensing, customs valuation and subsidies.
- Reagan notifies U.S. Congress of intent to sign U.S.-Canada free trade agreement.
- U.S. & Mexico sign Agreement to set up dispute mechanism for trade in textiles, steel, electronics, and farm products.
- U.S. & Mexico negotiate Understandings on Subsidies and Trade, and Investment Framework.
- U.S. & Mexico negotiate Understandings on Textiles, Steel, and Alcoholic Beverages.
- U.S.-Canada FTA Treaty finalized.

1988
- U.S.-Canada FTA Treaty signed.
- U.S.-Mexico Textiles Agreement signed.
- U.S. & Mexico sign Understandings on Steel and Beverages.
- U.S.-Canada FTA clears U.S. Congress.

1989
- U.S.-Canada FTA goes into effect.
- U.S.-Mexico Framework Agreement signed.
- Mexican Foreign Investment Decree goes into effect, allowing 100 percent foreign ownership of firms in most sectors.
- Bush and Salinas de Gotari sign agreements providing for talks on U.S.-Mexico trade and investment. Other accords were signed to strengthen bilateral efforts to increase cooperation on environmental issues.

1990
- U.S.-Mexico diplomatic notes exchanged to facilitate enforcement of tax laws.
- Canada-Mexico Framework Agreement signed, formalizing ten bilateral accords.
- Bush and Salinas meet in Washington to set groundwork for sweeping U.S.-Mexico trade and investment treaty.
- Trade Minister Crosbie announces Canada's intention to participate in U.S.-Mexico free trade negotiations.
- Bush-Salinas de Gotari summit at Monterey, Mexico.

Chart 5

The Main Economic Features of the Triad, 1989

Population	**North America**	**European Community**	**Asia (1)**
Population (millions)	359.9	325.5	504.9
Growth Rate (%)	1.3	0.3	1.6
GNP / GDP			
GNP/GDP (U.S.$, billions)	5,910	4,819	3,514
Real GNP/GDP Growth (%, annual avg. 1980-89)	3.3	2.1	4.3
GNP/GDP per capita (U.S.$)	16,420	14,800	6,958
Employment			
Employment Growth (%, annual avg. 1981-89) (2)	2.0	0.5	3.5
Manufacturing Compensation Rate ***(U.S.$ per hour) (3), (4)***			
Average	12.10	11.50	5.10
High	14.70	17.60	12.60
Low	2.30	2.80	2.80

Sources:

IMF International Financial Statistics 1990; The World Competitiveness Report, 1990; U.S. Department of Labor; Bureau of Labor Statistics; and The Conference Board.

Note:

(1) *Asia includes Japan, Taiwan, Hong Kong, Korea, Singapore, Thailand, Philippines, Indonesia, and Malaysia.*
(2) *Asian data excludes Philippines.*
(3) *Data for Asia excludes Indonesia, Malaysia, Thailand, and Philippines. Averages for all are simple averages.*
(4) *North American compensation rate is weighted relative to civilian employment in each country.*

advantageous for the United States, Canada and Mexico to try to establish more firmly the North American third of this "triad." The combination of U.S. and Canadian capital, highly skilled labor, natural resources, and advanced technology with Mexico's relatively low cost, abundant labor and growing consumer market should create major opportunities for all countries.

Chart 6 (page 16) shows the costs of labor and capital in Canada, the United States and Mexico. While average wage differentials reflect differences in average productivity as well as the mix of jobs, there are clearly large cost advantages for Mexican labor. Moreover, the cost of Mexican equity capital is surprisingly low considering that Mexican stock prices have risen so rapidly. As a result, the price-earnings ratios among the three countries are remarkably similar. Unfortunately, most Mexican firms do not have access to the stock market; furthermore, due to high real interest rates, capital is much more costly than in Canada and the United States.

Chart 6

The Cost of Labor and Capital in North America

Hourly Compensation for Selected Industries, (U.S.$)

Selected Industries (1)	**United States**	**Mexico**	**Canada**
Textiles	9.74	1.45	11.23
Chemicals	18.19	1.49	15.51
Rubber / Tires	21.48	5.13	NA
Primary Metals	18.79	1.82	19.85
Electrical / Electronics	14.31	1.19	13.99
Autos	21.51	2.45	17.74
Hourly Compensation Average	14.31	2.32	14.72

Cost of Capital (2)

Selected Interest Rates (%)	**United States**	**Mexico**	**Canada**
Commercial Paper	9.0	47.3	12.4
Prime Rate	10.5	NA	13.5
Long-Term Government Bonds (3)	8.6	45.2	9.9
Real Interest Rates (%)			
Commercial Paper	4.2	27.3	7.4
Prime Rate	5.9	NA	8.5
Long-Term Government Bonds	3.8	25.2	4.9
Equity			
Price / Earnings Ratio	13.1	10.4	16.3

Sources:

Banamex Review of the Economic Situation in Mexico, OECD Main Economic Indicators (1990), U.S. Department of Labor Statistics, Bureau of Labor Statistics, office of Productivity and Technology, "Hourly Compensation Costs for Production Workers in Manufacturing Industries, 1975-1988" Mexico, U.S., and Canada. U.S. Department of Labor, "Overview of Mexican Labor Market, 1990." Morgan Stanley Capital International "Monthly Statistics on International Capital Markets."

Note:

(1) *All wage data for selected industries are from 1987.*
(2) *Unless indicated otherwise, rates are averages for 1989.*
(3) *Unless indicated otherwise, rates are averages for 1989.*

NA = not available or not applicable.

Three Economic "Futures"

The U.S.-Canada FTA is the first formal agreement on the road to greater regional integration. It removed several non-tariff barriers to trade, including many discriminatory government procurement practices. Service sector firms, including financial services firms, now have the right of establishment and national treatment across the border. A precedent setting dispute settlement procedure is in place which, in effect, means that both countries have relinquished a degree of their national sovereignty in trade matters to an international arbitration mechanism. However, all tariffs will not be eliminated until 1998. And the two countries are still negotiating remaining government procurement and subsidy issues that are not scheduled to be resolved until the mid-1990s. The course of those discussions is uncertain; trade liberalization and economic integration are long-term processes.

The formal negotiations for a U.S.-Mexico FTA could begin as early as May 1991. The U.S. Administration has a "fast-track" approval process to speed up congressional review and prevent amendment of the international economic agreements and treaties. This should be extended by Congress before mid-year. There are many paths that integration of the North American economy may follow. At this juncture, however, it is reasonable to consider three economic "futures," which capture the main issues at stake: (1) the U.S.-Mexico talks fail; (2) Mexico joins in a free trade arrangement; and (3) regional integration progresses rapidly.

The U.S.-Mexico Talks Fail

There is a real possibility that U.S.-Mexico talks could fail or be indefinitely postponed. Economic integration would then follow an ad hoc course over the next few years, as businesses seek opportunities for trade and investment individually, under rules that are substantially the same as those which currently apply.

This "future" depends, to a great extent, on events in Washington. The Uruguay Round of GATT could be revived, which would supersede the U.S.-Mexico negotiation as a first priority and may also reduce the urgency of a free trade agreement for Mexico. Or, other matters could push the talks off the U.S. Administration's agenda. Either way, valuable momentum—which would be difficult, if not impossible, to recover—would be lost.

Perhaps more likely would be U.S. Congressional opposition to extend fast-track approval or, once it is negotiated, to enact any trade agreement, especially if the United States is mired in a recession. Because of the substantial labor cost differences between the two countries, some low-wage workers in the United States are likely to lose their jobs. For those congressional districts with a large, traditional manufacturing sector, the initial adverse effects could be significant. Moreover, unlike the U.S.-Canada FTA, the U.S.-Mexico agreement has been widely heralded early on, so that many labor and business groups who feel at risk might mobilize quickly and decisively against it in Congress.

Mexico Joins in a Free Trade Agreement

Despite these obstacles, the proximity of the two countries and their changing economic and political relationship argue for closer formal economic ties. Assuming there is a relative, if not absolute, decline in the importance of multilateral trade arrangements, the international and geopolitical arguments for a U.S.-Mexico FTA are compelling.

It is possible that U.S.-Mexico negotiations could be completed quickly in order to meet the U.S. objective of Congressional approval before the end of Bush's first term in 1992. The general structure of a U.S.-Mexico agreement could resemble that of the U.S.-Canada FTA—first, dealing with rules of origin, border measures, national treatment, technical standards and specific sector issues; and then with government procurement, services trade, and the institutional provisions for enforcing the agreement. **Chart 7** (pages 18-19) summarizes the main features of the U.S.-Canada FTA. Like the U.S.-Canada

Chart 7

The Main Features of the United States-Canada Free Trade Agreement

General Provisions:

(1) All tariffs to be eliminated immediately, or in equal annual reductions over five to ten years.

(2) Some non-tariff barriers to trade in agricultural products to be removed.

(3) Both countries to retain the right to use to anti-dumping and countervailing duties against injurious subsidies or discriminatory pricing.

(4) Further negotiation on government procurement to be undertaken not more than one year after renegotiation of the GATT Codes.

Specific Actions and Timetable

January 1, 1989

The Trade Agreement and its rules covering such issues as procurement, services and investment and border measures came into effect after both countries exchanged Instruments of Ratification. The first round of tariff reductions began, affecting about 15 percent of all goods traded between the two countries including:

- Computer and related equipment
- Some unprocessed fish
- Unwrought aluminum
- Vending machines and parts
- Airbrakes for railroad cars
- Some paper-making machinery
- Some pork
- Fur & fur garments
- Yeast
- Ferro alloys
- Skis
- Warranty repairs
- Leather
- Whiskey
- Animal feeds
- Needles
- Skates
- Motorcycles

Both nations ended U.S. export subsidies for agricultural products. The Canadian government started to remove its embargo on used U.S. vehicles. Cars more than eight years old could enter into Canada duty-free immediately; the age limit drops two years every 12 months until 1994. The embargo on used aircraft imports was lifted. Buy-Canadian and buy-American government procurement policies were eased.

U.S. uranium enrichment restrictions were ended.

The Canadian government began to phase out the differential markup on U.S. wine and removed it entirely on U.S. distilled liquor.

The Canadian government raised its threshold on U.S. takeovers of Canadian companies so that it would only review the takeover of companies worth more than $25 million, up from the previous $5 million. For indirect takeovers, the threshold was raised to $100 million, up from $50 million.

October 1, 1989

The Canadian government began to lift tariffs on U.S. exports of specialty steel products.

January 1, 1990

Tariffs dropped another fifth or tenth depending on the schedule.

January 1, 1991

The threshold for Canadian government review of U.S. direct investment takeovers rose to $100 million and, for indirect takeovers, to $500 million. Tariffs continued to drop; the 35 percent U.S. duty on Canadian shakes and shingles was removed.

January 1, 1992

The threshold for Canadian direct investment review rises to $150 million; indirect takeovers will no longer be scrutinized. Tariff cuts continue.

January 1, 1993

Tariffs will be lifted on another 35 percent of dutiable goods, including:

- Paper and paper products
- Telecommunications equipment
- Aftermarket auto parts
- Chemicals including resins (excluding drugs and cosmetics)
- Subway cars
- Paints
- Hardwood plywood
- Some meats (including lamb)
- Printed matter
- Furniture
- Explosives
- Most machinery

January 1, 1994

U.S. customs user fees and duty drawbacks in other countries will end. U.S. foreign trade zone provisions will change to Canada's benefit. New regimes on countervailing and anti-dumping duties should come into effect.

January 1, 1995

Tariffs take another drop.

January 1, 1996

There will be another tariff cut. This is the final deadline for Canada and the U.S. to agree on new trade remedy rules. Production-based duty waivers in the auto industry will end.

January 1, 1997

Another tariff reduction.

January 1, 1998

Tariffs will have ended on remaining goods:

- Most agricultural products
- Softwood plywood
- Textiles and apparel
- Steel
- Appliances
- Pleasure craft
- Tires
- Beef
- Rail cars

Source: Department of External Affairs, The Canada-U.S. Free Trade Agreement: Synopsis, Canada, 1987

FTA, a U.S.-Mexico agreement is also likely to be phased in over a 10-year period.

Even with the greater differences in economic structures, there is little point in prolonging adjustment beyond the lifetime of most products. However, it is not clear whether the scope will become broader or narrower. Due to Mexican constitutional restrictions on foreign involvement in energy, that sector may be excluded. Equally, U.S. sensitivity about trade in textiles and agricultural products like sugar, may mean that they will be exempted from any agreement.

A bilateral negotiation between the United States and Mexico raises the issue of equivalent treatment for Canada. The Canadian government is seeking a place at the negotiating table that the U.S. and Mexican governments seem well disposed to allow, if an appropriate procedure can be established. It has even been suggested that the U.S., Mexican and Canadian governments may hold trilateral negotiations to establish a single North American FTA. The core of the U.S.-Canada agreement could be used, or a more wide-ranging agreement might be sought.

In practice, however, the U.S. government might not wish to engage in trilateral negotiations for two reasons: U.S. involvement in such overtly regional trading arrangements might provoke greater regionalism in Europe and the Pacific Rim. More important, it might prolong the negotiation process, and risk not enacting an agreement by 1992. True, a North American agreement could be drawn up in such a way that it does not supersede the U.S.- Canada agreement or in any way threaten its implementation. It could, for example, defer to the provisions of the U.S.-Canadian Treaty whenever there were any difference in rules or procedures between the two. Nonetheless, it would be simpler for the United States and Mexico to conduct their own bilateral negotiations and let Canada conclude its own "equivalent" bilateral agreement with Mexico. In either case, Canada could achieve its objective of establishing access to Mexican markets on a par with the United States.

Regional Integration Progresses Rapidly

The third "future" assumes that, one way or another, Mexico joins Canada and the United States inside a free trading area and, in addition, the three countries take further steps to coordinate economic policy. This could happen in three ways: First, and most likely, is convergence of the three currencies. There is already a narrow trading range between the Canadian and U.S. dollars. In addition, the Mexican government may move to stabilize the peso against the U.S. and Canadian dollars, perhaps by tying it to a "basket" of industrial country currencies. This would be traumatic for the Mexican economy for the moment because inflation is so high—more than 25 percent a year. Fiscal and monetary policies would first have to be brought further into line, to normalize interest rate differences that otherwise move exchange rates. However, if the Mexican government succeeds in reducing core inflation to an annual rate of 8 percent or less, a change in the exchange rate regime might help to complete the process of inflation convergence to U.S. and Canadian rates.

Second, liberal trading and investment arrangements might be extended by including other countries in a free trade area. (Indeed, one of the clear advantages of an agreement among all three countries is that it could be drafted to allow third countries, if they met certain conditions, to accede to it.) The U.S. President's ***Initiative for the Americas*** called for a zone of freer trade in the hemisphere. In time, this may lead to an extended free trade agreement.

Third, and the least likely, is a customs union in which Mexico, Canada and the United States agree to impose the same tariffs—and, perhaps, non-tariff barriers—to trade from third countries, such as France or the United Kingdom. Any "Rules of Origin" would cease to be a factor in trade inside the region. These are rules by which the United States, for example, might specify that only part of a product which originated in Mexico (or the United States) would be exempt from import duties. Such rules are intended to stop a third country exporting to the country in the region with the lowest tariffs, and then reexporting into the rest of the region. When the external barriers are the same for all the countries in the region, rules of origin become redundant since there is no "back-door" from one national market into another. As a result, trade relationships become greatly simplified.

This is good economics, but impractical politics. It is difficult enough for a government to give up protection from a neighboring economy. To add the requirement that local industries exchange their home country protection from third countries for protection that was collectively managed, would almost certainly be asking too much. A single customs union barrier could presumably be raised or lowered only after negotiation with the two other countries, meaning much future trade policy flexibility would be lost.

What Difference Does An Agreement Make?

What are the key differences between these three "futures"? Why does it matter if a U.S.-Mexico free trade agreement is signed or not, or whether additional initiatives are taken in the near-term to coordinate policy?

As in the past, the natural forces based on relative wage costs and dynamic markets will drive integration whether or not a formal agreement to eliminate tariffs and/or open markets is reached. As long as commerce is not restricted, trade will continue to grow at about twice the rate of GNP in the region, lower value-added activities will continue to shift to Mexico, and investment will continue to flow South. The Maquiladora will probably "deepen" as the Mexican government extends the advantages of that program to cover more activities in manufacturing and services. Sooner or later, many Mexican companies will cross the border to compete in U.S. and Canadian markets.

Nonetheless, without a broad agreement, there is a danger of selective protectionist back-sliding. For example, the United States might impose restrictions on foreign firms operating under the Maquiladora scheme, arguing that they locate there only as a way of gaining preferential access to U.S. markets. Protectionist pressures in some U.S. industries might succeed in restricting trade. In all likelihood, progress toward a North American Competitive Space would be comparatively slow and uneven.

By contrast, if Mexico joins a free trade area, either with the United States alone or, in effect, including Canada as well, the pace of regional integration will accelerate. The short-term disruptions and adjustments would be greater, and the long-term benefits would accrue sooner, especially in Mexico. Certainly, more low-wage workers in U.S. and Canadian industries would lose jobs to lower paid Mexicans, and more new investment would migrate, too. At the same time, traditionally protected Mexican industry would face the full brunt of competition from Canadian and U.S. exporters. Trade with the United States and Canada would be increased and also diverted from third countries to Mexico.

On the other hand, U.S. and Canadian firms that shifted production and processes to Mexico, might cut costs enough to significantly improve their global competitiveness. It would depend on whether the advantages of lower costs and greenfield investments outweighed the costs of scrapping old plants and dealing with the logistical problems that might arise from operating over a larger geographic area. The opportunity for firms to optimize operations within the North American Competitive Space might preserve jobs, in both the United States and Canada, that would otherwise have disappeared as a result of competition from other regions. The automobile industry may be a key example.

The important point, however, is that the flows of labor and capital will not be solely the result of free trade. With Mexican tariffs now at roughly the same level as Canadian tariffs before the U.S.-Canada FTA, these tariffs are not a barrier to trade. The most important effects of a formal agreement would be to free investment and assure the right to establish and compete in markets that are now protected by non-tariff barriers in all countries—like government procurement.

A free trade agreement would also, once and for all, push outward the competitive frontier—for all sectors not exempted in the agreement. No doubt some sectors would be allowed more time to phase in the new arrangements. The general effect, however, would be not only to inhibit protectionist pressures, but to guarantee increasing access to the regional market for a broad base of sectors. In the absence of an agreement, the rate at which individual sectors could gain (or forestall) that access would be a function of their size and political muscle. Under a free trade agreement, small, dynamic and emerging industries would have the same advantage as established and mature ones.

Chart 8

Foreign Direct Investment

(billions of U.S.$)

United States	**1980**	**1987**	**1989**
Total	83.0	271.8	400.8
From Mexico	0.1	0.9	1.0
From Canada	12.2	24.0	31.5
From Rest of World	70.7	246.9	368.3
Mexico			
Total	8.5	17.3	26.6
From U.S.	6.0	4.9	16.2
From Rest of World	2.5	12.4	10.4
Canada			
Total	52.8	76.6	100.7
From U.S.	41.6	56.5	68.2
From Rest of World	11.2	20.1	32.5

Note: The foreign direct investment figures represent stock data, not net annual flows.

Sources: Survey of Current Business August 1990; U.S. Department of Commerce; Bureau of Economic Analysis; Investment Canada; SECOFI.

The dynamic effects of a free trade agreement would vary from sector to sector. In some areas, the relocation to Mexico of labor-intensive and less integrated parts of the auto and consumer electronics, agriculture, and processed food industries might well accelerate. In autos, for example, the logistics of moving parts to and from the established centers of production in Tennessee and the upper Ohio Valley could limit the amount of original equipment component production that could be relocated, due to the demands of just-in-time inventory management. Telephone companies in the United States and Canada, in addition to engineering firms—assuming Canada was a part of the new arrangement—should benefit from Mexico's program to upgrade its public sector, provided public procurement rules are covered in the agreement. Then, as Mexico upgrades its public services, firms in these sectors should be well placed to supply new plant, equipment and infrastructure, and better technology and management services for existing facilities. United States and Canadian banks should find opportunities for both merchant and retail banking, as the Mexican banking sector is liberalized and its capital markets develop.

Moreover, some U.S. and Canadian exporters of household appliances, automobiles, beverages and processed foods, should benefit from better access to a quickly growing consumer market of 84 million people. Mexicans spend an estimated 15 percent of each additional dollar they earn on products and services imported across their Northern border. Equally, U.S.

and Canadian manufacturers of computers and software should benefit from lower costs of labor and better access to the dynamic and increasingly important Mexican market—if they relocate parts of their businesses.

The impact of Mexico joining a free trade area will be felt more in some geographic regions than others. This might not be such an important factor in Mexico or Canada, although the pace of restructuring and investment could accelerate most in the North. In the United States, though, net job gains and losses for many manufacturing industries will probably be concentrated in the Midwest. The effects in the textile, agriculture, and oil extraction equipment sectors will be felt in the Southeast and Southwest regions. The Northwest should enjoy improved financial and computer hardware and software industry prospects. The Southwest, especially Texas, should gain trade in goods and services.

The Department of Labor has begun to calculate gains and losses from a possible agreement already, and the U.S. International Trade Commission will publish its own estimates. Generally, preliminary results suggest that the immediate, direct impact on U.S. industry will be less than the impact of the U.S.-Canada FTA, and that the impact will be focused on blue-collar workers rather than across many occupations and sectors. On the other hand, the effects of such an agreement on growth and inflation may be larger than the U.S.-Canada FTA. Analysis of the effects of economic integration in the EC suggests that these dynamic considerations may be more important than the immediate effects--possibly by a large margin.

Fuller economic integration would eliminate other impediments to trade and investment. For example, if exchange rates are stabilized and inflation rates converge, currency risk would diminish much as has been the case with the EMS (European Monetary System), making it easier for trading companies to predict prices and profits. That would also encourage new capital inflows, including the repatriation of more flight capital into Mexican capital markets. This could help to lower Mexico's external debt. In time, it might also remove much of the exchange rate risk premium between Mexico and U.S. real interest rates; thus, lowering the cost of capital for domestic borrowers in Mexico and encouraging the more efficient use of capital within North America as a whole. **Chart 8** (page 22) shows how direct investment has grown over the past decade among the three countries of the region.

Bringing other countries into the agreement, as suggested by the ***Initiative for the Americas***, would broaden both the benefits and the costs of a more competitive trade environment within the region. Trade within the region would still be more convenient if a customs union were established. However, GATT rules require a common external tariff equal to or lower than the lowest tariffs of the three countries for each type of good or service. That would reduce average tariffs and the consequent distortions to the pattern of trade. To the extent that business decisions and activities were not governed by the need to avoid trade and investment barriers, the efficiency, and therefore the growth of the entire region, would be enhanced.

What The Three "Futures" Have In Common

While the three "futures" would have different effects on the speed and completeness of a North American Competitive Space, there are at least four areas that may *not* be affected by a trade agreement between the United States, Mexico, and Canada.

The U.S.-Canada FTA

First, the U.S.-Canada FTA is not expected to be abrogated, even though it is currently blamed by many Canadians for their recession. This FTA constitutes the minimum of formal integration that will occur in the region.

Social Systems

Second, any significant harmonization of social systems is hardly conceivable in the next decade. Canada will remain the most welfare-oriented of the three countries, even if the United States gradually improves its provisions of social services. Mexico plans to enhance its social safety net, but its standards will remain below those in Canada and the U.S. for the foreseeable future. As a result, businesses in Mexico will probably have to supplement governmental support in important areas like pensions, health care, education, and child care, as they do now in the United States.

Immigration Pressures

Third, and in part as a result of the differences in income and government support levels, pressures for immigration from Mexico to the U.S. will remain. Although the Mexican government would like more liberal rules on labor mobility and, perhaps, the acceptance of equivalent professional standards comparable to those in the European Community, the U.S. government is sure to remain opposed. Indeed, the trend in U.S. immigration policies is toward tighter rules, with preferences based on skill, rather than on national origin or family links to U.S. citizens.

Tax Policies

Fourth, tax policies are unlikely to converge in a formal sense, although competitive pressures may bring effective tax rates closer together. Indeed, recently, Canadian and U.S. tax structures have diverged. Canada partially integrated its personal and corporate taxation during the 1980s, and recently implemented a federal Goods and Services Tax—a national value-added tax. Mexico has a 15 percent value-added tax. The U.S. Congress has debated and rejected a national value-added tax several times in the past. Personal tax rates in the three countries are similar and closer trade ties among them may rekindle U.S. interest in tax integration and in a value-added tax as pressures to "level the playing field" increase. **Chart 9** (page 26) compares the tax regimes of the three countries.

Accounting Practices

In all of these ways, business people operating in the North American competitive space are apt to face costs and inconveniences that, for example, their European counterparts will not. Even so, there are ways in which North American businesses are better positioned than their counterparts in other regions. For example, reporting requirements for auditing purposes in both Canada and Mexico conform roughly to the Financial Accounting Standards Board (FASB) in the United States. Although standards in Mexico lag somewhat, they do tend to parallel U.S. standards. However, reporting requirements for tax purposes in Mexico are different from both U.S. audit and tax reporting standards, and they are unlikely to converge.

Chart 9

A Comparison of Taxation in North America, 1990

Tax	Canada	Mexico	U.S.
Federal Corporate Income Tax	37% (basic rate) (1)	36% (max)	34%(max) 15% (min)
Provincial / State Corporate Income Tax	10-17%	NA	0-12%
Minimum Tax on Assets	NA	2%	NA
Alternative Minimum Tax	NA	NA	20%
Value-Added Tax	7% (2)	15%	NA
Provincial / State Sales Tax	6-12% (3)	NA	0-12%

Notes: (1) A preferential rate of 34 percent is extended to manufacturing and processing income.
(2) This number refers to federal Goods and Services Tax in Canada.
(3) Except for Alberta.
NA = not applicable or not available.

Sources: Price Waterhouse; Mexican Ministry of Finance.

Other Common Bonds

In addition, many industrial standards are the same in the three economies, notwithstanding the resistance in the United States to converting to metric, as Canada and Mexico have done. Tastes will no doubt continue to converge, creating greater economies of scale in consumer goods markets than in the EC. And some infrastructure is already well integrated; telephones are a case in point, even if the Mexican part of the system needs upgrading.

Mexican Dynamism

Whatever "future" unfolds, Mexico is predicted to remain the most dynamic of the three economies. It has a young and rapidly growing population. It will have a growth "dividend" to collect from economic liberalization for a while yet. It is likely to be the beneficiary of direct foreign investment on a large scale provided its economic reforms can be supplemented with social and political reforms. This represents an important source of long-term economic growth for the whole region.

The Implications for Business

The strategic implications of the pace and degree of regional economic integration are likely to be far-reaching.

North America Becomes the Market

Many businesses should rethink their definition of the "domestic market." For example, instead of thinking of their share in the U.S., Canadian or Mexican markets as a measure of strategic performance, in time, it may be more appropriate to think in terms of the share of all three national markets combined. A regional definition of market share will also become relevant for companies based outside the three countries.

Moreover, North American businesses should recognize that, in the future, competitors based anywhere in the region are likely to be as effective as competitors from their home country. This applies equally to firms which have no plans to trade across national boundaries as much as those that do. The need for intelligence on all three markets will increase.

A New Dynamic Character

In addition to a static, geographic redefinition of market, Canadian and U.S. firms in many sectors will have to take Mexico's dynamism more directly into account in their planning. On the one hand, there will be pressure to accelerate sales growth to maintain or increase share in their more broadly defined "domestic" market. On the other hand, they must anticipate that well-run Mexican competitors accustomed to high rates of growth, innovation and investment will aim to make rapid inroads in their own national markets wherever opportunities arise.

Bi-National Regions

As national borders lose their relevance, local regional markets will be defined increasingly without regard to them. For some regions this is already beginning: Ontario and Michigan form a single market for many goods and services, as do Southern California and Northwestern Mexico. These are likely to become more fully integrated to the point where it would no longer make sense to have separate business units serving customers and clients on each side of the border. The geographic boundaries defining strategic business units may have to be redefined in many companies.

New Markets for Everyone

While these issues may pose strategic problems for many firms in North America, there should be tremendous opportunities, as well. For example, Mexico needs to invest heavily in infrastructure. Canadian and U.S. engineering and construction companies should be able to win significant contracts once government procurement policies are liberalized. Conversely, Mexican firms, with their inherent cost advantages, may be able to make significant inroads into U.S. markets. For instance, Mexican producers of consumer goods will have improved access to large U.S. urban markets.

New Global Strategies

Moreover, many businesses should be able to take advantage of economic integration to expand their trade and investment within North America and to realize new efficiencies and economies of scale that will enhance their global competitiveness. Indeed, some will have little choice. They will have to seize these opportunities to survive in the face of global competition.

It would be unreasonable to expect firms based outside the region, with a stake in North American markets, to ignore the trend toward regional integration. For example, many Japanese firms have already invested in Mexico under the Maquiladora scheme, and more are likely to invest there if access to U.S. and

Canadian markets were to be better assured in the future. The challenge for U.S. and Canadian firms is to use their improved access to preempt investment in Mexico by third countries.

New Financial Strategies

Capital costs will fall for Mexican firms. Greater regional integration may lower the cost of capital to Mexican firms more than it will lower the cost of labor to U.S. and Canadian firms. Moreover, as Mexican capital markets develop, the range of financing options available to Mexican companies will no doubt broaden greatly. Financial strategies for many Mexican firms will need reappraisal.

Liberalization Requires Strategic Change

Trade liberalization means all businesses lose protection. Firms that invested in Mexico in the past expecting high tariff barriers to keep out other foreign competition must consider quickly how they want to redeploy their assets, if they have not already been hurt by Mexico's trade liberalization.

Conclusion

Regional integration is a force for the future. The U.S.-Canada Free Trade Agreement established the first precedent for broad, formal trade and investment liberalization within North America and within the hemisphere. Indeed, the U.S.-Canada Free Trade Agreement was the first clear signal that the dynamics of freer trade and investment could overcome the resistance to greater integration within the region.

Whatever the final outcome of the U.S.-Mexico negotiations, U.S. and Canadian investment in Mexico will increase as will Mexican penetration of U.S. and Canadian markets as long as overt protection is avoided. A formal agreement would provide the opportunity for all countries involved to consider the broad range of trade and investment issues at the same time; but it is by no means the only route to greater integration. The Maquiladora arrangement is an easy alternative and provides ample investment opportunities in Mexico—even though it does not address important, non-tariff barriers.

The bottom line for business is that the economic relationships between the United States and Mexico—and probably including Canada as well—are likely to change whether the new rules are negotiated formally among governments or are shaped by the self-interest of individual sectors. The result of these forces will be a broader and more dynamic regional market that will not only be an opportunity for regional business, but a target for other countries outside the region that recognize its potential. The combination of new competitive pressures and regional opportunities require businesses within the region to redefine the scope of their markets and competitive opportunities and threats. Those businesses that recognize this early will be better positioned to take advantage of, and to succeed, in the new North American Competitive Space.

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Report Number 961

Managing Environmental Affairs

Corporate Practices in the U.S., Canada and Europe

- *Eighty-one percent of firms surveyed believe mandated environmental standards are reasonable*
- *More than 70 percent have formal systems in place to identify key environmental issues*
- *Single issue of most concern to respondents is worker health and safety*
- *Issues expected to be most significant in next five years are clean air and waste disposal*

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Founded in 1916, The Conference Board's twofold purpose is to improve the business enterprise system and to enhance the contribution of business to society.

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Printed in the U.S.A.
ISBN No. 0-8237-0408-4

Managing Environmental Affairs: Corporate Practices in the U.S., Canada and Europe

by Catherine Morrison

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Acknowledgments

The author wishes to thank The Conference Board of Canada for their participation in this report, from the early stages of design to the final manuscript.

The author also wishes to thank E. Patrick McGuire, Jessica A. Skelly and Jayantha Jayman for their special contributions.

From the President

Preservation of the environment has become an issue of primary importance to our society and, therefore, of primary importance to business. Clearly the issue is global in scope. Concerns such as acid rain, global warming, and clean air know no boundaries.

This report, based on a survey of U.S., Canadian and European business executives, describes the primary environmental issues that concern these executives' companies. It looks at the priorities companies assign to these issues and the ways in which firms are taking the initiative to deal with them.

The Board would like to thank the many executives who participated in this study and who shared their insights into this most basic of societal concerns.

PRESTON TOWNLEY
President and CEO

Method

In each of The Conference Board's surveys of corporate public policy concerns, environmental issues has been one of the top priorities. At the Board's September 1989 International Industrial Conference of world business leaders, it was the subject mentioned most often at the Boardroom sessions, a key component of each conference day. At about the same time, a number of global and national environmental concerns emerged, requiring both immediate and long-term attention from public and private sector organizations.

Earlier in 1989, Board researchers surveyed 1200 companies in the United States, 1100 in EC-member European countries and 535 in Canada on a range of environmental policies and practices — 353 usable responses were received.

Company and industry-type selection was made based on the extent to which a firm's products or practices affect, or are affected by, environmental concerns and/or regulations. These businesses are:

- Agriculture
- Chemicals
- Construction
- Diversified manufacturing
- Electrical utilities
- Electrical machinery
- Fisheries
- Food products
- Gas utilities
- Mining
- Water and power
- Nuclear energy
- Paper and forest products
- Petroleum
- Plastics
- Primary metals
- Rubber
- Telecommunications
- Textile mill products
- Transportation equipment
- Waste management

In addition, interviews were conducted with those responsible for environmental affairs and related functions in business, government, conservation organizations and the wider public.

Executive Summary

The concerns are global. Environmental problems are issues for business and industrial operations in countries at various levels of industrialization—the mature capitalist countries of the West, the emerging Eastern bloc states and the lesser-developed countries. In the Third World, explosive population growth fuels the concern for diminishing resources. The recent changes in the U.S.S.R. and Eastern Europe reinforce the recognition that environmental matters can threaten internal political stability and challenge relations between neighboring countries as effectively as weak alliances and arms agreements.

In Western Europe, the European Community is moving closer to U.S. regulatory standards as the issues of environmental protection receive increased political attention. Canada is moving towards a comprehensive national "Green Plan," recognizing the heavy resource-based dependency of the Canadian economy and the increase in court challenges to industry and government activities. In the United States, House and Senate negotiators finally reached agreement on changes in clean air legislation, setting stricter standards and establishing new timetables to reduce chemical contamination in the air. Compliance could cost $25 billion a year.

Companies respond to the key issues. Corporate environmental policies are undergoing rapid, sweeping changes as companies respond to new laws, pressures from external constituents and concerns from within the firms' own management ranks. Many U.S. firms are more concerned with the vagaries of environmental regulation enforcement than with the regulations themselves. Canadian and European firms have greater confidence in, and respect for, environmental regulators than do U.S. companies.

Protection of workers' health, both in the workplace and the overall environment, is one of the key concerns of most companies. Toxic and non-toxic waste disposal is another key concern; companies find this to be one of the most intractable problems they face and expect to pay much more for waste recycling and disposal in the years immediately ahead.

The cost of compliance. No one disagrees that, philosophically, pollution must be controlled, but some see the costs of achieving technically feasible environmental standards as excessive when compared to the benefits derived. Failure to factor cost/benefit ratios into the decision-making process can lead to a misallocation of technical resources. Further, less-industrialized countries can ill-afford to pay for the cost of pollution control, let alone pursue environmental policies that interfere with free trade.

Setting policy. Environmental policy decision-making most often resides with the President or CEO. In the United States and Canada, executive vice presidents are more likely to have this responsibility than in Europe. When preparing for a new environmental thrust, most companies appoint a corporate Board member or charge a top-level committee with the task. Weighing the likelihood of increased credibility with customers is an important indicator of the value of a proposal change. In the United States, the customer comes first; less so in Canada and Europe.

Many firms rely on trade associations to assist in environmental lobbying programs, but admit that the technical data presented by associations is often viewed as biased and not credible.

New ventures. While some businesses affected by environmental regulations can expect a slowdown in revenues and an increase in costs, other companies will clean up on the cleanup. The investment community predicts opportunities in trash disposal and pollution abatement technologies. Businesses that specialize in air and water filtration systems, recycling, and machinery and tool cleaning are expected to prosper. "Environment-friendly" products, on the other hand, have been greeted with deep-seated skepticism on the part of the consumer.

The Environmental/Business Outlook

Twenty years after the nation's first report on environmental quality, there have been gains made, losses posted, and the rhetoric adjusted a bit. But the only substantial change in the problem is its scale. It is enormous, and has become increasingly global. This report examines environmental problems and how U.S., Canadian and European firms are seeking solutions to them.

Worldwide, a pattern of environmental concern is already emerging. National security is being redefined; national sovereignty, environmental advocates say, simply does not make sense when trying to reverse global warming, acid rain, destruction of the upper ozone layer, or toxic waste emissions into the air and waterways.

Sustaining Development

One of the main concerns companies face is the relationship between economic development and environmental integrity. The growth of per capita income and population places severe demands on the physical environment and raises concerns about maintaining the natural resource base, protecting clean air and water supplies, biological habitats, soil fertility, etc.

Concern for diminishing resources is fueled, in large part, by continuing population growth. The World Bank projects the total global population to increase to more than six billion in the year 2000 and to eight billion or more in 2025. The distribution of this growth is not uniform. The substantial increase in Africa and, secondarily, Asia, vis-à-vis the modest increase in Europe and North America, indicates that by 2025 the economically developed countries will represent the declining proportion of the world's population. The importance for business is that approximately 80 percent of global GNP is produced in the developed countries, which contain only 20 percent of the population.

In the United States

Despite the wide array of problems, much progress has been made since the Stockholm Conference on the Human Environment, convened by the United Nations in 1972. In the United States, there have been considerable gains. With the exception of nitrogen oxides, air quality has improved. The same can be said for water pollution, with the exception of ocean dumping.

But there is continued pressure for the passage of new federal environmental legislation. Often, a mobilizing event, usually an ecological disaster, produces such a law. The toxic disclosure law followed the Bhopal incident; Superfund legislation followed the Love Canal disclosures. The *Exxon Valdez* spill focused a nation already disturbingly familiar with holes in the ozone layer and, following the peculiarly hot summer of 1988, global warming.

However, the states are not waiting for federal protection. For example, Virginia, Maryland, Pennsylvania and the District of Columbia are cooperating in a regional effort to clean up the rapidly deteriorating Chesapeake Bay. New Jersey has sharply restricted development on its freshwater wetlands. This is only the latest move for this bellwether state; earlier, it enacted the nation's first mandatory recycling law, requiring each municipality to sort and salvage 15 percent of its paper, glass and other solid waste.

In the United States, the Clean Air Act cuts new-car pollution to 2.5 percent of 1970 models' emissions. Industrial toxic air emissions will be reduced by as much as 90 percent by 2003. Acid rain should also be halved.

Acid rain — an issue concerning both the United States and Canada — involves the fewest uncertainties. Years of research have identified the causes and laid out the remedies. Aging coal-fired power plants produce sulfur dioxide, the major precursor of acid rain. Fifty Midwest generating stations account for half the total U.S. production of sulfur. The Administration proposes cutting sulfur dioxide emissions by nearly half, raising the ire of Midwest Congressmen and the United Mine Workers.

After a decade of calling for further study, it looks like something is about to happen. Will this hurt the economy as a whole? Certainly; some jobs will be lost as the legislation will reduce mining employment in high-sulfur coal belts. But it will also increase employment in the low-sulfur coal mining operations. Scrubber manufacturers are expected to increase hiring as well, since there will be increased demand for their products.

Water quality is the success story of U.S. antipollution efforts: drinking-water supplies are mainly safe. The National Pollutant Discharge Elimination System has resulted in water pollution levels five times lower than the amount of pollutants released in the air.

The Canadian Outlook

Opinion polls indicate that Canadians rate environmental concerns as highly as do citizens of other Western nations. Canadian corporations are "going Green" where possible, as in other nations.

Although environmental priorities in Canada tend to be region-specific, Canadian concerns are similar to those in the other industrialized nations (i.e., clean air and water, disposal of toxic and hazardous wastes, greenhouse gases and global warming, and the preservation of wilderness and wildlife). In examining environmental issues of particular importance in Canada, four topics deserve mention: first, the Canadian response to the work of the World Commission on Environment and Development (the "Brundtland" Report) and the subsequent federal work to frame a comprehensive national "Green Plan"; second, the heavy resource-based dependency of the Canadian economy and the attendant implications for environmental policy; third, the increasing proclivity of Canadian environmental groups to challenge industry and government activities in the courts; and last, the shift in attention from a focus on environmental problems to debate concerning the means or mechanisms best suited to solving these problems.

The Canadian economy is more dependent on resource-based industries than the United States and Western Europe; the outputs from the oil and gas, petrochemical, mining, forest products, and utilities sectors account for a greater portion of GDP in Canada than in most other industrialized nations. Natural resource dependence is even more pronounced in certain regions of the country: whole communities and provinces in Western and Atlantic Canada rely almost entirely on the processing of natural resources to sustain their economies. Both the regional nature of resource dependence in Canada, together with provincial jurisdiction in most aspects of resource management, present formidable challenges to the formation of an acceptable national environmental policy in Canada.

Meanwhile, about $14 billion worth of resource megaprojects (and thousands of accompanying jobs) are being held up by litigation and regulatory review. Court decisions require federal and provincial agencies to revise their environmental impact assessment process. Litigation and an altered judicial climate threaten to discourage business investment in these Canadian resources.

Canadians are generally agreed that certain broadly stated environmental goals are "the right things to do" (e.g., cleaning up air and water, safely disposing of hazardous wastes, and reducing levels of greenhouse gas emissions). But setting quantitative and regional targets to reach these goals meets with less consensus—perhaps far less, once actual compliance costs become known.

A number of Canadian business and research groups, including The Conference Board of Canada, have recently established programs or task forces to explore and explain the use of market-based instruments to foster the achievement of environmental goals. A host of issues need exploration. Among the principal ones cited by Canadian respondents are:

- which instruments are appropriate for which problems?
- the issue of revenue neutrality versus revenue enhancement;
- international competitiveness under different market instruments;
- regional impacts of various instruments; and
- internationalization of certain mechanisms (for example, tradable emission permits to control greenhouse gases). [1]

The European Outlook

Environmental concerns, as serious European political issues, came into their own in 1988. Much of Europe, horrified, watched the death of thousands of gray seals in the North and Baltic Seas. The seals washed up dead along the coasts of England, Sweden and West Germany, killed by a rare virus, their immune systems thought to have been compromised by exposure to raw sewage and toxic wastes. At about the same time, the freighter *Karin B*. set out from Italy carrying 2,100 tons of toxic waste for disposal. It was turned away at every port. It finally wound up, 10 months later, back where it started, in Italy. The publicity accompanying these events, coupled with mounting anxiety about the warming of the earth's atmosphere and the consequent "greenhouse" effect, and CFC-induced holes in the Antarctic ozone layer, galvanized Europe. Since then environmental politics have not been the same.

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[1] The section on the Canadian outlook was prepared from material supplied by Alan Howatson of The Conference Board of Canada.

The chairman of one of Europe's largest chemical companies has acknowledged the need for the chemical industry to "change things." Criticism of the chemical industry—one with annual sales of over $300 billion—is strongest in West Germany where damage to forests from sulfur dioxide emissions is patently visible. In Norway, chemical plants are said to pose a serious problem. The plant of one hydroelectric firm is among the world's largest producers of chemical fertilizers. It is also a producer of substantial toxic wastes, which are reported to end up in the Freier Fjord. Responding to such problems, the Norwegian government is adopting tough antipollution laws and has doubled its budget to enforce these laws.

The EC wishes to develop rules that will be flexible enough to allow countries at different stages of economic development to pursue environmental policies that do not interfere with free trade. In the past, the EC Commission attempted to draft environmental policies, but often these lacked the legal foundation to make them effective. But now the Single European Act, which sets the course for the completion of the integrated economic market in 1992, contains a provision that the environment must be protected.

Among the most environmentally conscious people are the Dutch, West Germans and the Danes. These countries have well-developed national policies, and regulators in these nations tend to regard the EC as a threat to their national standards.

The Danish public gives environmental issues a high priority. Politicians have followed suit with a series of measures that has led Danish manufacturers to claim that they will have to spend twice as much on environmental measures as they do on research and development. A Dutch plan to cut all pollution by 70 to 90 percent by the year 2010 will finance environmental care by having the polluter pay. The Dutch have already had success in reducing the sulfur dioxide emissions which cause acid rain.

In the middle of the environmental spectrum are Great Britain, France and Belgium, where environmental policies have existed for years, but where current EC regulatory actions have tended to force what were once merely policies into specific legislation. Greece, Portugal, Spain, Ireland and Italy are said to be in the earliest stages of developing environmental policies. For these countries, EC legislation has become both a spur and a framework.

Clouds over Eastern Europe

The unexpected political events opening up Eastern Europe have revealed the devastation of that region's natural resources. Poland, Hungary, East Germany and Czechoslovakia are said to be environmental disaster areas. Forty years of Communist-controlled industry has left these countries the most polluted of all the world's industrialized nations.

In East Germany, nearly 9 percent of agricultural land is reported to have been ruined by pollution. A lack of sewage treatment plants can be seen throughout East Germany where wastes run through sewage pipes directly into canals, and then into rivers and streams.

In Hungary, four-fifths of the five million tons of hazardous waste produced each year is disposed of improperly. In northern Czechoslovakia's heavily industrialized areas, life spans are 15 years shorter than the national average, according to Czech government estimates, and pollution is said to be a major issue.

Seventy percent of Poland's southern forests are projected to die by century's end; and between 1965 and 1985, the percentage of Polish water fit for human consumption dropped from 33 percent to 6 percent of all surface waters.

Among the most critical changes facing this region are those that separate industry from the state, making industry fully accountable for pollution control.

Companies Assess Standards and Benefits

The businesses surveyed generally find present environmental standards to be reasonable and/or technically feasible (see Table 1). About three-quarters of the U.S. companies polled find this to be so, while over four-fifths of European respondents and Canadian companies support their countries present environmental practices.

In the United States there was agreement that, philosophically, pollution must be controlled. The only real question is to what level, and at whose cost. While environmental standards are technically feasible, some of those questioned see the costs to achieve them as excessive when compared to the benefit derived. To one respondent, this is due "in large part, to grossly over-conservative margins of error associated with health-based standards." Among the observations made by those commenting on existing environmental standards are the following:

> In some cases, standards are developed on the basis of mechanical, theoretical or laboratory data which do not apply to real world applications.
>
> —*a pharmaceuticals producer*

> Environmental requirements often do not recognize the differences between operations (e.g., a sanitary landfill versus a coal ash monofill). This sometimes results in regulatory overkill or an overly rigid position on the part of the government. The easiest path for a regulator affected by bureaucratic inertia is to go by the book, ignoring unusual factors at a site that warrant a departure from a narrow, cramped reading of the law or regulations.
>
> —*a steel producer*

Table 1: Companies Believing Environmental Standards to be Reasonable and/or Technically Feasible

	U.S.	*Canada*	*Europe*	*Aggregate*
Yes	76%	87%	87%	81%
No	24	13	13	19

Percentages based on valid responses

> Standards are derived from regulations, and often people with little experience interpret the regulations. What makes perfect sense in one area is deemed illegal in another even though the alternative creates more waste. Permitting procedures are atrocious.
>
> —*an oil company*

> Federal standards are generally reasonably set, based upon an evaluation of political demands, environmental technologies and economic considerations. At the state level, however, standards are set which cannot be consistently and accurately monitored using current analytical lab techniques.
>
> —*a foods manufacturer*

Companies believe environmental standards should be based on sound science. Standards, executives say, become unreasonable when they lose sight of the overall goal: protection of human health and the environment. Too often, other concerns take precedence, like ease of implementation and enforcement, or pressure from interest groups and politicians. Furthermore, some managers commented, the existing statutes have overlapping authorities and vary in their objectives and level of protection.

One of the most thoughtful criticisms centered on the schism between public policy and economic realities:

> We believe that environmental public policy is not always coordinated with the economic and technical realities of various compliance requirements. Often, the technology does not exist to meet a particular public policy goal, and industry is faced with trying to develop the technology and implement it simultaneously. Overseas competition and other economic factors have severely strained the competitiveness of a number of American industries. While we support a cleaner environ-

ment, unrealistic cleanliness standards and rapid installation deadlines can only erode America's industrial position further.

—a gas utility

Although 76 percent of U.S. respondents are comfortable with the reasonableness of environmental standards, many of those respondents offered "yes, buts." For example:

Regulations in general are reasonable; however, not enough management oversight exists in the timely and objective implementation of these regulations. In addition, overlapping jurisdictions by several regulatory bodies at federal, state and local levels are burdensome, costly and often conflicting.

—a power company

In general, the spirit of the regulation is reasonable and the technology does exist to meet those standards. However, absolute and expeditious compliance requirements mandated hastily through Congress or haphazardly from state to state impose impractical standards and deadlines for industry.... The severe enforcement authority of the regulations expects absolute and thorough attention to all aspects of the regulation. This latter aspect is often unreasonable.

—a pharmaceutical company

Overlapping or Conflicting Standards

In some cases, while there was support for reasonable standards, the implementation of the standards was deemed confusing and illogical. For example, disposal of certain hydrocarbon liquids is exempt or may be sold as "product" in some operations while similar liquids—with the same type of chemical base—must be handled as hazardous waste in other operations. The complexity of environmental regulations, managers say, has caused overlapping and sometimes conflicting rules governing the same waste. "The generic application of regulations and technologies across diverse industries leads to inefficiencies, over-regulation, under-regulation and a compliance-only mindset," one firm's vice president of environmental affairs says. Excessively complicated standards tend to expand project lead times, adding additional costs.

Some companies took the Environmental Protection Agency (EPA) to task. "[EPA] standards are generally technically feasible," says one Southwestern oil company, "but the EPA enforcement is not. We operate in numerous EPA districts and their oversight and enforcement activities range from ridiculous to punitive. The problem is not the regulations; it is the bureaucracy."

Others described what they see as an adversarial relationship between EPA and U.S. industry and view it as counterproductive. EPA compliance procedures are seen as excessively burdensome and, as in the case of Superfund, not matching benefits to costs.

Of the three out of four firms who do believe environmental standards are reasonable, many say that they work closely with government to achieve standards they can live with.

[Our company] supports industry research and lobbyists that present data and industry's position during the legislative and regulatory process. Therefore, for the most part, by the time standards are adopted, we generally have had time to prepare for compliance requirements.

—a Midwestern utility

We believe that environmental standards, as they are expressed in environmental laws and regulations are necessary and generally reasonable. Where environmental laws and regulations are not reasonable, we have a responsibility to work with regulatory agencies and with law makers to revise or eliminate the unreasonable rules.

—a Southwestern utility

The environmental standards faced by our company today are both reasonable and technically feasible. Industry had long neglected the impact of its activities on the environment. Today, most industries recognize that clean air and water are important to the company as well as the public. It is certainly reasonable for the government to impose such standards. The technical feasibility of the existing standards is evidenced by our meeting such standards the vast majority of the time.

—a tire manufacturer

In Canada, only one in seven companies reports problems with Canadian environmental standards. Those that do complain say that standards are no longer based on demonstrated environmental need, they are based on what technology can provide in terms of abatement — "treatment for treatment's sake." These firms believe that the analytical ability to measure small quantities of substances far exceeds current ability to understand their real world significance to health and the environment. In some cases, emissions for example, proposed standards are believed to be unattainable. Other companies find enforcement inconsistent. A copper mining firm comments, "we build a plant to last 25 years, but over the life of the operation, the rules keep changing."

As in the United States, while firms support the laws and regulations in principle, some believe the objectives of the law are frustrated by the failure to provide adequate means to dispose of materials — such as low-level radioactive wastes.

Provincial regulations are seen as more than reasonable, except for the issue of polychlorinated biphenyl (PCB) disposal. Current regulations state that PCB-containing equipment will be out of service by 1993. However, no facilities exist in Canada to destroy the products once the containing equipment is taken out of service. One of Canada's transport firms says there is a solution to the PCB disposal process, but the political will to use it is lacking:

> A case in point is the ability to destroy PCBs in cement kilns. This technology has been available since 1972 yet no one has seen fit to use it because of real or perceived public opposition.

Political problems are also apparent in the overlays of federal and provincial jurisdictions, leading to confusion in compliance procedures. And politics plays a role as Canadian companies attempt to shift attention from their particular industry to another. A heavy equipment manufacturer writes:

> Numerous changes in processes, additional equipment and revised procedures have been implemented in our factories to comply with existing regulations on air, water, and solid waste disposal. The incremental cost to improve further would be substantial, but improvements would be negligible. Effort and attention should be on other industries where the amount of pollution is significantly higher (i.e., coal-fired power generation, pulp and paper, steel-making, and petrochemical refining).

Generally, Canadian and European companies stand more squarely behind federal environmental standards than do their counterparts in the United States:

> The knowledge of the chemical/biological reactions of environmental contaminants has increased considerably in the past few years. This has stimulated the interest to develop new technologies related to pollution abatement and, in some cases, the complete removal of contaminants. As our monitoring system becomes more sophisticated and our technical capability increases, new environmental guidelines and standards will be in place,
>
> —*a Canadian hydroelectric utility*

> We believe existing environmental standards will be tightened as they should be. They are technically feasible but time is needed to reach them. There is a delicate balance between highest achievable standard, best available technology and sustainable development. We aim to be pollution free.
>
> —*an Alberta chemicals company*

In Europe, the strongest support for present standards comes from countries with substantial industrial concentrations while, predictably, countries with smaller industrial bases find present standards burdensome. Those who do not support the standards say they are "too ambitious," or resent allocating scarce financial resources for this purpose. Of course, environmental issues differ from country to country, but there are several very clear areas of agreement among the European respondents. These are:

- Existing regulations, while attempting to be all-encompassing, have become overly complex,and difficult to interpret.
- Some standards can only be met at extremely high cost.
- In some cases, such as in groundwater pollution, there is too much variation from country to country or state to state; standards for cleanliness are unclear.
- Scientific and technical evidence is too frequently subordinated to political "hype." Resources are therefore at risk of misdirection.
- Standards are sometimes too strict and sometimes not related to what is needed to protect the environment; they are based on Best Available Technology.

Nearly nine out of ten of the European companies do support their countries' environmental standards. Some may find the standards unreasonable, but say they are technically feasible. A multinational oil company finds German standards "largely reasonable" but sees the "danger of losing sight of the right balance between ecology and economy." Politicians in Germany are seen by business as especially prone to pleasing the "green" interest group and disregarding economics and reasonability in the process.

A Danish food producer does not find his nation's standards particularly relevant to dealing with global environmental issues, where the efforts of individual companies and countries are necessary but not sufficient. "All countries must participate," this firm reports. "However, it is a matter of great importance for industry to know what its obligations are and not find itself constantly subject to varying requirements."

A French vintner did not find it possible to answer the survey question simply, saying:

> We think that each case to be treated has to be studied with the will to apply the standards, but they are not often very well adapted. [Therefore,] it is necessary to [have] open discussion with authorities so as to find out the good solutions. At least we are well convinced that standards must be developed to meet the needs expressed.

The Costs of Compliance

World political leaders are almost all in agreement on the need to halt environmental degradation. But not all are certain of the extent of the risks faced, and the costs of eliminating these risks. One example is global warming; the United States is not sure that the evidence supports the dire predictions presently bandied about. But one item everyone agrees on is their distaste for the cost. It is staggering. Unless it becomes unexpectedly easy to sharply reduce the need for oil, natural gas and coal, the cost of reversing the carbon dioxide problem will be borne through the next century, and will run to trillions of dollars. At present, private and public expenditures on pollution control exceed $65 billion annually.

In the decade between 1978 and 1988, there were approximately 3,900 economic and scientific studies of acid rain. [2] The costs for controlling acid rain are inconsistent from study to study, with wide swings across the cost spectrum. One factor is the differing assumptions about the future prices of low-sulfur coal, oil, and the future railroad costs of moving coal to the markets. Some models use constant dollars, while others use future or present value.

The author or sponsors of a particular study will also influence how data is collected and used. For example, a utility burning high-sulfur coal might estimate costs considerably higher than a government study, because the utility would have to assume the most draconian compliance scenario. Companies are also concerned about the costs associated with cleanup of toxic waste sites. Under Superfund, those who generate, transport or store hazardous waste are liable for its cleanup, no matter how long ago or how legal company actions were at the time they were taken. Companies are trying to get their insurers to share the burden, but have not been too successful.

Court rulings seem to be uneven, but the general feeling is that judges and juries want to make sure the cleanup is accomplished. If the polluter is a smaller firm or township that could not possibly pay for a cleanup, courts are more willing to hold the insurer liable. But if a corporation is big and healthy, it is likely to get the bill.

The stakes are high — the bill for past pollution is likely to approach $100 billion, and corporations seem to be bearing it alone. European companies are bound by European laws, which have traditionally held each individual or corporation accountable. But legal scholars are calling for a newer approach — loss spreading — based on the premise that everyone shares in the benefits of industrialization and everyone must now share in the costs.

Costs are escalating in Europe as well. Sandoz, the Swiss chemicals company, estimates that in 1987 it spent SFr 208 million on operating costs associated with handling waste, and invested an additional SFr 66 million in capital equipment. From1988-91, Ciba-Geigy committed SFr 830 million to such measures.

Clearly, companies in the less-industrialized European countries—Greece, Portugal, Spain and Ireland—cannot afford these costs. These countries are in the earliest stages of developing environmental policies and are counting on the EC to develop rules that will be flexible enough to allow countries at different stages of economic development to pursue environmental policies that do not interfere with free trade. For these countries, EC legislation will become both a spur and a framework.

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[2] Burt Solomon, "The Capital Numbers Racket," *Across the Board*, February 1988, p. 54.

Issue Identification and Policy Development

Most of the companies studied have a formal system in place for identifying key environmental issues. More than 70 percent of the firms surveyed have such a system; U.S. companies lead with 77 percent, while only 71 percent in Europe and 61 percent in Canada utilize such a system.

Three-quarters of all companies questioned depend on their own staff for the identification of these issues; the number of companies relying solely on outside consultants is insignificant. A number of companies use a combination of both inside staff and outside expertise; in the United States, 30 percent of the companies use such an approach.

Those companies that go this route do so primarily, one executive says, "in the context of external pressures from community groups. Outside consultants have a better sense of this than we do. Our people think of the company first—the consultant gives us balance." This practice is less common in Canada and Europe, where only 16 percent and 12 percent of the firms, respectively, report using a combination of inside and outside talent.

Over half of the European companies, 56 percent, prepare a formal environmental issues agenda for review by their senior management. In the United States, half prefer an informal process; issues are discussed at committee meetings, board meetings, at the plant or divisional unit level and then proceed up through management levels in a variety of forms. Canadian companies also appear to have a slight preference for the informal method, with 53 percent using such a technique.

When environmental policy decisions are made at corporate headquarters, the responsibility most often resides with the president or CEO (see Table 2). The most significant differences between the United States, Canada and Europe occur at the executive and senior vice president levels. U.S. executive vice presidents (EVP) are twice as likely to have this responsibility as would their counterparts in Canada, and European EVPs three times as likely as their Canadian colleagues. At the senior vice president (SVP) level, there were no European officers responding who had these decisions as their responsibility, while 17 percent and 15 percent of U.S. and Canadian companies, respectively, depend on SVPs for this.

Where is the Environmental Policy Function Housed?

In the three regions surveyed, many companies have established a specialized unit dealing only with environmental affairs. But there are regional variations. Examining the figures in Table 3, one sees that Canada has fewer companies with specialized units, compared to the United States and Europe. Canadian companies

Table 2: Identification of Decision-Making Level at Corporate Headquarters by Frequency of Mention

Title	*Aggregate*	*U.S.*	*Canada*	*Europe*
President or CEO	43%	41%	47%	45%
Chairman of the Board	16	18	11	18
Executive Vice President	14	14	7	23
Senior Vice President	14	17	15	0
Vice President	13	15	12	7

Because of rounding, figures do not add up to 100 percent

Table 3: Location of the Environmental Policy Function at Corporate Headquarters

Name of Unit	*Aggregate*	*U.S.*	*Canada*	*Europe*
Specialized unit dealing only with environmental affairs	40%	41%	31%	49%
Assigned as a major responsibility to an existing corporate function	37	35	42	38
Corporate committee or task force	10	9	16	7

tend to depend more heavily on corporate committees or task forces.

When examining the assignment of environmental affairs to specific corporate functions, the survey found that European companies tend to see environmental affairs as part of operational activities, vis-à-vis government or public affairs, and report the policy-making function located in manufacturing twice as often as U.S. companies; it occurs in product-related areas seven times more often than in the United States and Canada. European companies also delegate more of the policy decisions to plant services units than do Canadian and U.S. firms.

Most telling, perhaps, is the fact that 15 percent of European respondents to this question elect to place their policy decisions in a planning unit, as compared with one percent in the United States and four percent in Canada. "Until recently, all our decisions on the environment were tied to our manufacturing facilities on a country-by-country basis," reports a British agricultural products firm, "but with the [European] economic integration ahead in 1992 this has become a strategic planning concern for our senior management."

Some U.S. firms locate the environmental affairs function in either manufacturing or engineering; not a surprising choice, considering U.S. concerns with compliance and source reduction. However, the legal department rated slightly higher than either manufacturing or engineering, perhaps reflecting the litigious nature of the United States, especially when confronted with highly regulated industries.

The environmental affairs function is almost always separated from the public affairs/government relations unit. Most often, the person responsible for environmental affairs comes from an engineering or technical background, leading occasionally to a less than sensitive handling of outside constituencies. (See "Public Perception/Building Credibility," page 33.)

Preparing for New Directions

In order to prepare for a new environmental thrust, many companies either appoint a corporate board member, or charge a top-level committee with the task of overseeing the firm's progress on environmental issues. Companies then conduct in-house surveys to analyze and determine their environmental progress, while at the same time polling outside groups to see if changes in company practices and procedures will raise its credibility with customers.

Environmental Policy Abroad

Companies handle policy decisions quite differently when it comes to their overseas activities. Two in five respondents make such decisions at corporate headquarters (See Table 4). More than 50 percent turn these decisions over to some combination of host country managers and facility operators. This percentage rises when looking at European companies. Companies headquartered in countries with long histories of colonialization, such as Great Britain, France, and Belgium, find

Table 4: Environmental Policy in Foreign Operations

Location	*Aggregate*	*U.S.*	*Canada*	*Europe*
At corporate headquarters	38%	34%	50%	38%
At the host country management level	41	40	41	47
At the host country operating facility	10	12	4	11
Other	11	15	4	4
Valid cases	*210*	*119*	*46*	*45*

even more extensive delegation of environmentally sensitive decisions to the local level.

Developing Policies

Corporate environmental polices are undergoing rapid, sweeping changes as companies respond to new laws, pressure from external constituents and concern from within the firms' own management teams. Some of these changes are evident in publicly announced moves. For example:

- The American Petroleum Institute (API) has announced an eleven point set of guiding environmental principles. Adherence to the principles is mandatory for corporate members, as the principles are part of API's by-laws.
- Conoco has committed to a nine point environmental program expected to cost the company $50 million a year.
- Phillips Petroleum has adopted a new mission statement emphasizing environmental protection and safety.
- ICI America's environmental reports from each of its different units are one of only two compulsory reports prepared for ICI's annual business reviews. The British-based parent company is the world's fourth largest chemical firm.
- Disney, after several bruising bouts with environmentalists, has created a new corporate vice-presidency for environmental policy and appointed a staff zoologist to the post. The office will deal not only with compliance and response to activists, but will encourage "environmental themes" at Disney facilities.

Types of Policies

Policy statements made available to The Conference Board can first be divided into two general types. These are: (1) generalized statements of philosophy and/or overall objectives; and (2) guiding principles as drafted by trade associations, and used by individual firms.

Generalized statements of philosophy and objectives. Some firms are content to issue vague statements in which a company recognizes its duty to be a good corporate citizen. These homilies are usually prefaced by "we wish to be known as ..." and cover a broad range of corporate citizenship, including environmental issues.

Often a company will circulate a policy on environmental quality that is simply a statement of broad environmental objectives. There is no accompanying description of how those objectives are to be met; nor is there any identification of the responsible company officials. These statements frequently cover points such as:

- the need to control emissions from operations that impact on the environment to a level equal to or better than the standards set by responsible government agencies;
- to cooperate fully with government environmental control agencies;
- to improve environmental control and waste management procedures and practices on a continuing basis;
- to engage in and contribute to research for the development of more effective pollution control equipment and processes
- to incorporate the best available environmental control technology and systems economically achievable into company operations; and
- to safeguard employees and the public from injuries or health or environmental hazards.

Guiding principles as drafted by trade associations. Trade associations often draft environmental guidelines or objectives for their members. In some cases, as mentioned earlier, the guidelines become part of the association's by-laws and members are bound to adherence. For example, the Canadian Chemical Producers' Association uses stronger language than that of the "simple statement" category in their "Guiding Principles." Part of their publication *Responsible Care: A Total Commitment* states that the company must:

- ensure that its operations do not present an unacceptable level of risk to its employees, customers, the public or the environment;
- provide relevant information on the hazards of chemicals to its customers, urging them to use and dispose of products in a safe manner, and make such information available to the public on request;
- make responsible care an early and integral part of the planning process leading to new products, processes or plants;
- increase the emphasis on the understanding of existing products and their uses and ensure that a high level of understanding of new products and their potential hazards is achieved prior to and throughout commercial development;
- comply with all legal requirements which affect its operations and products;

- be responsive and sensitive to legitimate community concerns;
- work actively with and assist governments and selected organizations to foster and encourage equitable and attainable standards.

Origin and Implementation of Policies

In terms of origin and implementation, policies are:

1. Designed and implemented at headquarters.
2. Designed at headquarters and implemented in business units.
3. Designed and implemented at the business unit level.

Policies designed and implemented at headquarters. In several of the companies studied, environmental policies are first developed at the corporate level and then administered by corporate staff officers. For example, one of the oil companies speaks very clearly to the implementation of their policy by pinpointing the corporate "home" for environmental compliance. After a lengthy description of their environmental policy, the company identifies the senior vice president, human resources, as the officer responsible for the interpretation of the policy. The company further identifies all its executive vice presidents as directly accountable to the CEO for the implementation of the environmental policy within their operating groups.

Policies designed at headquarters and implemented in business units. In some cases, a policy directive may outline the general framework against which guidelines are developed and implemented for each location or sector of activity. Shell Canada and Amoco Corporation in the United States are good examples of firms using this design; enforcement occurs at the operational level, and performance is weighed and judged at corporate headquarters. This design is often used by companies having far-flung exploration, extractive or agricultural activities.

Policies designed and implemented in business units. Some companies that appear to have only generalized policies may have, in fact, turned the responsibility over to local managers who, over time, have developed their own programs. For example, BATCo in the United Kingdom has extensive operations in many developing countries and supports a wide range of environmental activities, managed by the senior BATCo official in each locale.

For BATCo, forestry projects play an essential role in community development, particularly in arid areas which could easily be lost to the desert. Tree planting programs under local management are under way in many African and Asian countries. Two of the most visible examples are Brazil, where over 150 million trees have been planted by tobacco farmers since 1960, and Kenya, where 10,000 farmers have planted a total of 13.5 million trees.

Other Strategy Considerations

When factoring external considerations into the firms' environmental policy-making process, companies were inclined to give the most weight to the legal and regulatory requirements they face. Following in importance were social responsibility and — somewhat behind — response to liability pressures (see Table 5).

The necessity to stay within the limits of the law is more than twice as important as a social commitment to the greater good (see Appendix Table 1). This is not surprising, considering the array of federal, state and local regulations companies face. Violations of toxic waste disposal, clean air, clean water, solid waste disposal, right-to-know, coastal and wetlands management laws — to name a few — are too costly to take lightly.

Social responsibility appears to be internally driven, rather than a result of external pressures. Companies comment on pressure from within, the younger managers and their families who are making demands on top management that previous generations would never have dared to do. A British respondent writes

Table 5: Factors Reflected in Environmental Policy Decisions (by Rank)

Factor	*Aggregate*	*U.S.*	*Canada*	*Europe*
Response to legal or regulatory requirement	1	1	1	1
Social responsibility	2	2	2	2
Response to liability pressure	3	3	3	4
Response to community pressure	4	4	5	3
Response to shareholder pressure	4	4	4	4

** For percentages, see Appendix Table 1.*

"the environmental movement has succeeded in politicizing women in the United Kingdom — a group that has never before been mobilized by a single issue."

Externally, the customer comes first in the United States, and second in Canada and Europe. The most important external constituents in Canada are the provincial governments and, in Europe, local governments (see Table 6 and Appendix Table 2). Environmental activists are said to receive the least time and attention from corporate environmental affairs officers. The financial community and the media are only slightly less influential than the activists. "We stay as far away from the press as we can," says a fertilizer and pesticide manufacturer. "When a news show calls, we know we're in trouble. And courting the press has been a disaster for us. We've tried to give them as much information as possible, but what they really want is our heads."

The Role of the CEO

Respondents were asked to characterize the role their CEO plays in environmental issues, using criteria of leadership, interest and commitment (see Table 7). In 50 percent of U.S. and 57 percent of European responses, the CEO is seen as the personification of the company's philosophy and position on environmental issues and problems; 44 percent of the Canadians responded in a similar fashion. Slightly more than one-fourth of Canadian CEOs do not involve themselves at all with environmental policy. This contrasts sharply with 14 percent in the United States and 10 percent in Europe. About one-third of U.S. CEOs are active policymakers and participants with outside groups, while more than one quarter do so in Europe and Canada.

Who Represents the Company?

The Conference Board looked at the full range of company executives and outside consultants who might be called upon to represent the company at agency meetings, government hearings, and public meetings, and asked respondents which persons represent the company, and on what occasions. The tabulations appear by rank order in Table 8 and Appendix Tables 3, 4 and 5, and by percentage in Appendix Tables 6, 7, 8 and 9.

Environmental officers, when present in a company, were the first choice in all categories in Europe and the United States, and first choice in Canada for regulatory agency representation and federal government hearings. The manager/director of the corporate unit most often represents Canadian companies at state government hearings, while local government hearings and public meetings are covered by the plant or facilities manager.

Canadian and European companies tend to select their top management as representatives at federal and

Table 6: Importance of External Constituents (by Rank)

Ranking

	Aggregate	*U.S.*	*Canada*	*Europe*
Customer	1	1	2	2
State or regional governments	2	2	1	3
Federal or national governments	3	3	4	4
Local governments	4	5	5	1
Stockholders	5	4	6	5
Community	6	6	7	6
The media	7	7	6	6
Financial community	8	7	7	7
Environmental activists	9	8	8	7

For percentages, see Appendix Table 2.

Table 7: The External Role of the CEO

Role	*Aggregate*	*U.S.*	*Canada*	*Europe*
Personification of company philosophy	50%	50%	44%	57%
Policymaker and participant with outside groups	32	35	26	31
Maintains a hands-off policy	17	14	26	10

Remaining respondents checked some combination of the three views

Table 8: Who Represents the Company? United States, Canada, Europe Combined (By Rank)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	6	3	6	8	5
Manager or director of corporate unit	2	4	2	3	4
Plant or facilities manager	7	10	5	1	2
General counsel	4	5	4	4	7
Environmental affairs officer	1	1	1	2	1
Public affairs officer	9	9	9	6	3
Government relations officer	8	6	8	7	8
Tax specialist	11	11	11	11	12
Financial officer	12	12	12	12	11
Trade association representative	3	2	3	9	9
Lobbyist	10	8	10	10	10
Consultant	5	7	7	5	6

For percentages, see Appendix Table 6

state government and regulatory agency hearings much more often than do U.S. companies, which prefer to use functional specialists to represent the company. U.S. companies make heavy use of trade association representatives, reinforcing the earlier discussion on the role of these trade groups. Lobbyists are used much less frequently in all categories in Canada than they are in the United States and Europe. The role of the general counsel, on the other hand, is much more important to U.S. companies than it is to Canadian and European companies. Again, U.S. companies are part of a more litigious society.

Gearing Up for 1992

As 1992 approaches, companies must prepare for a new wave of environmental government regulations. One of the major environmental problems facing European firms will be the harmonization of environmental standards. Europe is expected to swing toward West German environmental standards—the most demanding in Europe. U.S. companies, already used to stringent regulations, do not see this as a problem. In fact, an oil company respondent says that multinational corporations and international organizations have been partially responsible for this. "Pollution controls, reductions and remediations that are required in this country [the United States] by statutes or regulations appear to be migrating to Europe," he says. "It is unlikely that their standards will be stricter than U.S. standards."

Two out of five of the U.S. companies responding to The Conference Board's survey anticipate their firm's activities will be significantly affected by the movement toward EC-wide environmental standards. One third of the Canadian firms responded in a similar fashion.

European companies divide strategies for participating in the development of EC-wide environmental policies equally among three options (see Table 9):

1. Use of a special task force within the company. This is usually at the board level or, if managed by staff, will be a group of senior vice presidents.
2. Use of an existing formal unit of the company. Most firms have their environmental units on the scientific or technical side of the company, rarely in corporate management.
3. Use of lobbyists to the EC. Rather than having a Brussels-based lobbyist, most companies have lobbyists in each country in which the firm has interests. The lobbyist then journeys to Brussels carrying the flag of the national interest, rather than the multinational corporation's banner.

In the United States and Canada, much smaller percentages are involved in these activities (five percent and under). However, 12 percent of the Canadian firms are monitoring EC developments, as compared with 29 percent in the United States.

Americans fear that the growing European "green" movement is affecting environmental requirements in a way that will be inconsistent among nations. Adoption of EC directives by a specific country will have an impact on facilities within that country, while a more lenient country's facilities would not be similarly affected, thus creating disadvantages among similar manufacturing companies within different countries.

The European community is seen as lagging behind the United States in implementing environmental standards. American respondents assume that new European regulations will cause that region to move toward U.S. standards. "The major impact will be to improve the competitive balance between the United States and Europe," concludes a British oil company executive.

Other companies are not so pragmatic as they watch Europe move toward harmonized policies. For example, U.S. railroads transporting coal to port facilities for export to Europe perceive that EC-wide environmental standards might affect coal-burning and, therefore, affect the coal-export business in the United States.

European companies see the coming harmonized environmental standards as an important part of their positioning; they believe they will only keep their competitive advantage by conforming to these standards. Countries with already high standards, such as Germany and Switzerland, seek actively to prevent a distortion of different laws. Some German companies, in fact, hope their role as a forerunner on ecological issues will be moderated by the EC-wide directives. The harmonization of standards is considered critical in regard to Europe's role in world trade.

> The development of a coherent and technically sound framework of legislative measures and standards for the community is vital. We are active in participating in the consultative procedures which are operated by the Commission. It is of the utmost importance that scientifically sound, reasonably practicable standards are equally applied across the Community. Such well-based standards will avoid the possibility of rendering Europe uncompetitive as a trading bloc.
>
> —*a British drug firm*

Working with Outside Groups

Companies were asked to describe and comment on their working relationships with a variety of outside groups. These groups included regulatory agencies at several levels, environmental activists and local community groups, the media, and other companies and industries. Productive relationships are rank ordered in Table 10. The full range of responses by percents are shown in Appendix Tables 10, 11, 12, and 13.

The most productive relationships occur in two areas: 1) among other companies in the same industry, and 2) at the regional or state regulatory level.

Other Companies

Companies band together with other companies for a variety of reasons. Trade associations help companies solve legal, technical and regulatory problems. They work to transfer environmental information to all members, and save money by avoiding the repetition of similar studies. Trade groups also assist members in interpreting and clarifying rules and regulations. Among the comments of respondents on this point are:

> We have had some success with all levels of government in large part because of our participation in PACE, the Petroleum Association for the Conservation of the Canadian Environment.
>
> —*a Canadian oil company*

> Our relationship in trade association activities has been very productive, not only in providing leveraged research on a broad scale to investigate environmental issues, but also in providing a strong voice in responding to the U.S. Administration, the Congress, and regulatory agencies in the United States and abroad.
>
> —*a U.S. petrochemicals firm*

> Belonging to the Machinery Allied Products Institute (MAPI) Environmental Task Force has been extremely helpful as it shares environmental issues of concern to Fortune 500 companies. Open communication with other companies in the aerospace industry comes from membership in the Aerospace Industries Association (AIA) Environmental and Safety Task Force.
>
> —*a U.S. aircraft manufacturer*

A few firms prefer to work both with companies inside their own industry or in the same region.

Table 9: Company Strategies for Participating in Development of EC Environmental Policies

Strategy Option	*Aggregate*	*U.S.*	*Canada*	*Europe*
Use of special task force within company	8%	5%	5%	23%
Use of existing formal unit of company	7	4	2	23
Use of lobbyists to EC	7	4	1	23
Only monitoring EC developments	28	29	12	48
No current involvement	30	32	32	21

Totals do not add up to 100 percent because companies may use multiple strategies.

> With other companies in our industry we exchange information and work together on research programs to achieve a commonality of position based on what we know and learn. With other industries, cross-fertilization through contact with other companies broadens our perspective and perhaps re-focuses our attention.
>
> —*a Canadian paper company*

Regional and State Agencies

Companies work with state and regional agencies in different ways for a variety of reasons including:

- to ensure open and complete communication
- to maintain an ongoing dialogue
- to request on-site inspections of procedures
- to solicit the regulator's perspective
- to solicit advice for improvement
- to organize studies, tours and attend local seminars
- to serve on task forces, committees, advisory panels, and joint working groups

Outstanding compliance and open lines of communication build credibility with state regulators. Thus, company efforts focus on developing sound positions consistent with each agency's environmental goals. Companies commented frequently on the need to be cooperative and open-minded toward regulatory agency input, and to provide an atmosphere that signals a willingness to work with the states to resolve particular situations.

> We try to project an image of thoughtful compliance with regulatory standards and we participate constructively in their rulemaking.
>
> —*a New Hampshire utility*

> With a shared concern over providing reliable electric service (permitting new generation) and protecting the environment, we have begun to develop a cooperative approach to solving our problems.
>
> —*a New York utility*

The most pragmatic guidance comes from a large U.S. printing firm:

1. Use local, respected consultants.
2. Start early to educate and explain.
3. Do what you say when you said you would.
4. Don't be a 'patsy.'

Other External Groups

The least productive relationships seem to occur with the media, local community groups and environmental activists. These groups traditionally have been difficult for corporations in the United States, Canada and Europe to work with, and their low ranking among respondents perhaps comes as no surprise to observers. But a few companies have had positive experiences to report:

> We have been very successful in working with local community groups and communicating with them on potential environmental problems. Most community groups are willing to listen to an honest appraisal of environmental problems and in working with local industry in arriving at reasonable solutions.
>
> —*a U.S. oil company*

> Local community groups are usually willing to engage in constructive discussions leading to solutions to problems. Open and candid exchanges are possible. This is frequently not the case with federal agencies.
>
> —*a multinational mining company*

Table 10: Working Relationships with Outside Groups (by Rank)

Outside Group	*Aggregate*	*U.S.*	*Canada*	*Europe*
National/federal regulatory agency	5	4	3	4
Regional/state regulatory agency	2	2	2	2
Local regulatory agencies	3	3	5	3
Environmental activists	8	8	8	7
Local community groups	6	6	6	5
The media	7	7	7	5
Other companies in the same industry	1	1	1	1
Other industries in the same region	4	3	4	4

For percentages see Appendix, Table 7

Key Issues of Company Concern

For this study, companies were asked to identify issues in which their firms are actively involved. On issues of primary concern to the company — where the level of interest is reflected by an active lobbying effort, the support of advocacy groups that espouse the corporation's position, or the assignment of company staff and resources to a particular issue — companies are described as being "actively involved." These issues tend to be those thought likely to involve legislation that would — or could — impede a company's manufacturing or marketing operations.

A list of issues that companies could choose from was provided in the survey. The issue topics selected for the survey come from: a polling of corporate, government, and conservation officers and a regular review of secondary sources such as industry surveys, public opinion polls, tracking of media coverage, monitoring of legislative initiatives, and so on. In total, 35 separate issues were identified.

Issues are weighed in two ways in this report. First, companies report on their degree of involvement and concern (see Appendix Table 14). Second, companies are asked to identify the single most important issue affecting their firms, selecting from among the 35 issues available (see Table 11). Third, they are asked to look ahead to the issues expected to be most significant in the next five years (see Table 12). Clean air, toxic waste disposal and worker health and safety head the list of issues.

The five most important issues by frequency of mention are: (1) worker health and safety; (2) clean air: toxic air pollution emitted from stationary sources; (3) emergency management; (4) hazardous and toxic chemical waste disposal; and (5) toxic solid waste disposal. Curiously, emergency management was an issue in which companies were actively involved, but it did not appear in the ranking of single issues of most concern, or on the list of those issues expected to be significant in the next five years. When asked about this apparent discrepancy, companies responded that this was, for them, a continuing operational concern requiring extensive use of resources, but not a policy issue.

Workers' Health and Safety

Employers' concerns about the health of their workers and the safety of their workplace cut across all industries and almost all of the other issues that participants in this study addressed. The hazardous and toxic waste disposal problem, for example, affects not only the community at large, but presents hazards for the handlers as well. To complicate matters further, issues that were once classified as purely safety problems (e.g. gas pipeline leaks) are now also classified by companies as environmental issues. The same holds true, for example, for electrical utilities regarding low-level radiation from electromagnetic fields.

New regulations addressing right-to-know and occupational safety and health, are causing companies to step up their internal programs. Consolidated Rail Corporation (Conrail) has put in place "extensive programs for training employees regarding the use, handling and transportation of hazardous materials." Other railroad companies find the regulations burdensome:

> Worker health and safety issues in the rail industry context have grown to the point that the financial viability of the industry will be put at risk unless structural, legislative and regulatory changes are made. A continuation of the current trend of increasing costs... cannot be tolerated.
>
> —*a Southern railway*

Many new workplace regulations have been put in place as a result of the increasing ability to measure indoor air pollution. In 1950, pollutants could be detected at one part per million. By 1965, the gas chromatograph, the basic instrument to measure concentrations of volatile organic compounds, could detect pollutants at one part per billion. That is to say, in a swimming

Table 11: The Single Issue of Most Concern to Companies: Top Five Choices (by Rank)

	U.S.	*Canada*	*Europe*
Worker health and safety	1	1	1
Clean air (pollution from stationary sources)	2	3	—
Hazardous and toxic chemical waste disposal	3	2	2
Acid rain	4	—	—
Toxic solid waste disposal	5	—	—
Clean water (surface water contamination)	—	4	—
Greenhouse effect: global warming	—	5	—
Non-toxic waste disposal	—	—	—

** In Europe, the responses beyond the first two top issues were too scattered to be of measurable significance.*

Table 12: Issues Expected to be Most Significant in the Next Five Years (by Rank)

	U.S.	*Canada*	*Europe*
Clean air (pollution from stationary sources)	1	3	—
Toxic solid waste disposal	2	3	—
Acid rain	3	4	—
Hazardous and toxic chemical waste disposal	4	1	—
Non-toxic waste disposal	5	2	1
Clean water (surface water contamination)	—	1	—
Greenhouse effect: global warming	—	3	—
Worker health and safety	—	3	—

In Europe, the responses beyond the first-ranked issue were too scattered to be of measurable significance.

pool 40 feet long by 20 feet wide by 6 feet deep, 2 drops of pollutants could be detected.

Until recently, industry was expected to measure its own indoor pollutants, and the practice was largely unregulated. The science is relatively new; indoor air quality was not recognized as a problem until the energy crisis of the 1970s produced a construction boomlet of air-tight buildings. As scientists became aware of the new crop of health problems, they found workplace hazards similar to those at home.

By January of 1989 the Labor Department's Occupational Safety and Health Administration (OSHA) limited worker exposure in 164 substances for the first time and strengthened the limits on 212 substances that are already regulated. This move is expected to significantly reduce the risk of illness for more than 21 million workers. As expected, consumer groups and labor organizations do not feel the new rules go far enough; some businesses say the rules went too far. [3]

For the estimated 40 million users, OSHA does not regulate video display terminals (VDTs). Nearly everyone uses them; their capabilities in word processing, filing, communicating and calculating have made them indispensable to most organizations. With this has come a host of medical complaints alleging a link to VDT use—deteriorating vision, carpal tunnel syndrome, cumulative-trauma disorders, musculoskeletal complaints and increased miscarriages and birth defects.

In New York State, Suffolk County passed — and then modified — legislation to regulate VDTs. Employers will have to notify workers of all potential health hazards and provide training programs to help operators recognize the early stages of symptom development.

In Canada, companies cited the difficulty of complying with stringent regulations while employing a multicultural work force. "The major problem is the education of our work force. We're dealing with people of varying educational levels in fairly sophisticated scientific concepts."

In some cases workers' health and safety and environmental issues are housed in different departments, complicating effective management.

> Workers' health and safety ranks just above environmental issues in the company priorities but they are managed separately by two departments. Workers' health and safety issues are a social responsibility for us and are believed to be a major factor influencing productivity.
>
> *—a Canadian oil company*

European company experience was discussed most candidly by chemical company respondents. From an environmental point of view, workers' health and safety means efficient control of chemicals by the company at all points in the processes. For these companies, chemi-

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[3] Irvin Molotsky, "New Limits Imposed on 376 Substances Found in Workplace," *New York Times*, January 14, 1989, page.1:1.

Primary Elements of Corporations' Environmental Strategies

With surprising uniformity, companies are putting most of their resources into new pollution control devices, improving existing pollution control devices, and complying with federal and local environmental regulations. Only in the United States is there an emphasis on source reduction, attempting to control pollution as a first rather than a last step. This may be in anticipation of the market incentives which are a part of the new Clean Air Act.

U.S. Corporations	*Percent of Firms Using Strategy:* *Nationally*	*Internationally*
1. Installation of new pollution control devices	86%	41%
2. Control of pollution through product and package redesign	51	21
3. Improvement of existing pollution abatement	87	38
4. Changes in raw materials to reduce pollution (source reduction)	77	34
5. Working voluntarily towards company environmental standards and goals	60	27
6. Compliance with federal and local environmental regulations	76	36
7. Combination of 5 and 6	63	28
8. Lobbying to change environmental regulations	65	11

Canadian Corporations	*Percent of Firms Using Strategy:* *Nationally*	*Internationally*
1. Installation of new pollution control devices	90%	32%
2. Control of pollution through product and package redesign	52	20
3. Improvement of existing pollution abatement	91	30
4. Changes in raw materials to reduce pollution (source reduction)	64	19
5. Working voluntarily towards company environmental standards and goals	52	19
6. Compliance with federal and local environmental regulations	71	23
7. Combination of 5 and 6	60	22
8. Lobbying to change environmental regulations	46	13

European Corporations	*Percent of Firms Using Strategy:* *Nationally*	*Internationally*
1. Installation of new pollution control devices	68%	48%
2. Control of pollution through product and package redesign	45	39
3. Improvement of existing pollution abatement	71	48
4. Changes in raw materials to reduce pollution (source reduction)	47	40
5. Working voluntarily towards company environmental standards and goals	32	26
6. Compliance with federal and local environmental regulations	53	37
7. Combination of 5 and 6	37	32
8. Lobbying to change environmental regulations	32	16

cal control in practice means getting reliable, up-to-date information on the physical, chemical, toxicological and environmental properties of chemicals, and putting this information into use to control occupational and environmental risks.

Workers' health and safety appears as the single issue of most concern now to companies in all three regions surveyed, yet when questioned as to the issues expected to be most significant in the next five years, it is ranked third in Canada, and not at all in the United States and Europe. Existing rules and legislation in the U.S. and Europe compel responsible action. Canadian law is not that stringent now, but it is expected to become more so within the next several years.

Clean Air

For many companies the single most important issue has to do ~~with~~ air, be it acid rain, the greenhouse effect, global warming, or air pollution from stationary sources. Driven by the realities of a deteriorating global environment, business and industry is becoming increasingly involved in a series of global agreements and national "command and compel" legislation.

This involvement was particularly crucial in the United States during the long debate over amendments to the Clean Air Act. For the first time since the 1977 amendments, a sweeping rewrite had a chance of passage. By settling for less stringent standards and a slower cleanup schedule than originally drafted, the Senate met Administration demands for anti-pollution measures that do not hurt the economy.

When negotiations started in January 1990, the Administration estimated the annual cost of the Senate bill as $41 billion and the annual cost of the Bush proposal as $19 billion. The final law is estimated to cost $25 billion a year by early in the next century.

The bill, for the first time, imposes federal controls on acid rain and its chief ingredient, sulfur dioxide. Emission of sulfur dioxide from power plants would be reduced 50 percent by the end of the decade and then held constant at that level. Acid rain control was not a bone of contention: both sides wanted a 10 million ton reduction in sulfur dioxide emissions from power plants in the Midwest by the year 2000, with the first reduction coming in 1995.

The cost of reducing sulfur dioxide will place a heavy burden on the utilities and customers. Some concessions were made, among them increased credits for companies that decrease pollution below mandated levels. These credits may be sold to other utilities who could use them to build new electric generating plants.

Proponents of nuclear power, both in the United States and abroad, have found some grudging allies among those ready to abandon fossil fuel. From a European automotive manufacturer:

> The development of nuclear power sources as the best medium-term solution to the excessive use of fossil fuels will be a major contributor to reducing air pollution, acid rain and checking the greenhouse effect.

Air pollution from stationary sources ranked second as the single most important issue for U.S. companies, and third for Canadian firms (see Table 11, page 24). When asked what issue was expected to be the most significant in the next five years, air pollution from stationary sources ranked first in the United States and third in Canada. This issue was considerably less important in Europe.

When describing the elements of their environmental strategies, more than three-fourths of the U.S. respondents are installing new pollution control devices, improving existing pollution abatement equipment and processes, and changing their raw materials in order to reduce pollution at the source (see box, page 25). This is also the government's first step toward achieving clean air. In Canada, the key strategy — at 91 percent — is improving existing pollution abatement.

A number of companies believe the government goes too far. "Air toxics is an issue which has overtaken the clean air debate. Little science (toxicology, epidemiology) is available which supports the extreme measures being considered," says an oil company executive. "Substantial economic disruptions can be expected to occur. Impacts of the proposal, particularly the disproportionate cost to marginal benefit, seems to elude the public."

Companies currently complying with the new source performance standards say that their newer equipment is successful, to a large extent, in limiting the emissions of toxic air contaminants. But further emission reductions on this equipment would be extremely difficult, and very costly.

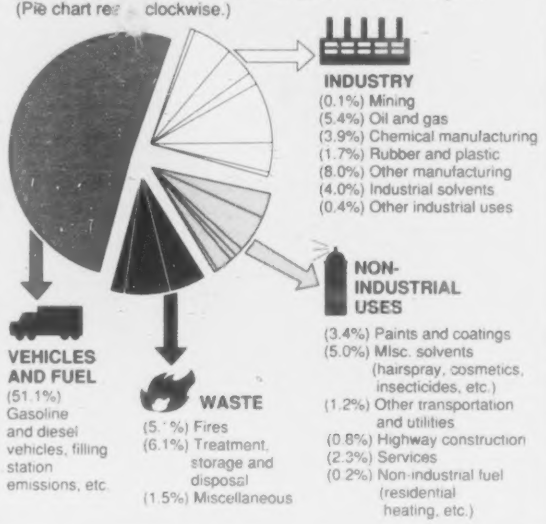
> Regulations that include older sources and others not presently covered is likely. This will result in further research and expense and perhaps in the installation of expensive controls if suitable alternatives cannot be found.
>
> *—an American tire manufacturer*

Unions fear these costs may result in job loss. Under the Clean Air Act, it is estimated that by 1995 up to 6,000 jobs will be lost in high-sulfur coal mining with the possibility of another 9,000 jobs lost by the year 2000. The Clean Air Working Group (CAWG), industry's chief lobbying force in the clean air debate, maintained that the new revisions would cause industry to spend enough capital to effectively increase costs thereby stalling revenues and reducing productivity.

Exhibit 1

Ozone: Sources of a Threat On the Ground

Estimated share, by source, of annual emissions of volatile organic compounds that produce dangerous ozone at ground level. The total is estimated at 23 million tons a year. (Pie chart reads clockwise.)



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The industry coalition, led by CAWG, worked together successfully for most of the 1980s to block stronger air pollution laws; they rarely cut separate deals that might harm other businesses. This was not difficult during the Reagan Administration because the affected industries had a strong friend at the White House and everyone was perceived to be treated fairly. Under the new Clean Air Act, there are divisions between industries and sometimes between companies in the same industry. The utility and coal industries are on opposite sides of the fence. Oil and automobile companies are split, as are coal and natural gas industries. Tighter tail pipe emission standards which put the burden on the auto industry, and cleaner low-sulfur coal producers capturing market share at the expense of high-sulfur coal producers are but two examples of these splits.

CFCs/VOCs: Phasing Out

The phaseout of two compounds is causing major industries to retool: chlorofluorocarbons (CFCs) and volatile organic compounds (VOCs). As early as 1967 California regulations identified three groups of photochemically reactive solvents, hydrocarbons and other compounds which, when emitted, react with the ultraviolet portion of sunlight to produce low level ozone, a major component of smog. The EPA limits ozone emissions to 0.12 parts per million; air-pollution control districts that exceed the limits must institute programs to reduce emissions. This restriction affects virtually every business that puts paint to metal. Many areas of the country experiencing deteriorating air quality have opted to limit VOCs in architectural coatings. To meet new requirements the paint and coating industry has phased out old products and developed new ones.

The industry continues to grapple with the solvent component of paints; the volatile, evaporative liquid that improves application. Wherever possible, water is being substituted for solvents. Companies are also changing the normal ratio between solids (pigments and resins) and solvents to bring the process into compliance. These new high-solids paint formulations require new resins, new additives and new methods of manufacture. Some companies are balking:

> The proposal to include methyl chloroform in the proscribed list of ozone-destructive substances under the Montreal Protocol is, we consider, an overkill decision. The effect of the chemical is very small in comparison to CFCs. The replacement of aqueous systems is only practicable for certain operations, and other solvents increase flammability hazards. Furthermore, increasing aqueous systems adds further burdens to effluent disposal and increases possibilities for water pollution.
>
> *—a British auto manufacturer*

U.S. firms have taken a more proactive position than the U.K. company quoted above. Benjamin Moore, Flecto, Glidden and Sherwin-Williams are among the major firms in the industry developing low-VOC coatings. But other companies using coatings are considering dropping major product lines because the costs of reaching the last 10 percent of compliance are simply too high. "If we stop manufacturing because compliance is too costly, other countries with lower air quality standards will just pick it up," writes an an aluminum company executive. "What have we accomplished? Emissions float across national borders; we're merely exporting our own environmental responsibilities."

The aerospace industry is particularly hard-hit and says it needs more time to reach compliance.

> Paint reformulation is the key answer but it won't happen overnight. The EPA should work with industry to develop new low-volatile organic compound paints and processes rather than forcing installation of control equipment.
>
> *—an aircraft manufacturer*

> In the aerospace industry, we are constrained by Department of Defense military specifications that do not readily allow substitution of materials in our processes. Cleaning and painting of aerospace parts and assemblies currently utilizes

> chemicals that are hazardous materials containing air contaminants. In addition, the manufacturing of aerospace equipment is not done on a steady-state assembly line production basis. Therefore, we must continue to fight for 30-day averaging of these chemicals versus a 24-hour limit accountability.
>
> *—an airframe producer*

Exhibit 1, on page 27, shows VOCs contribution to the state of ground-level ozone, the major component of smog, and its stationary and vehicular sources.

"Stratosfear"

Stratospheric ozone is very different, and escalating fears of damage to the upper ozone layer have resulted in increasing bans on the manufacture of CFCs. Chlorofluorocarbons are cheap, nontoxic gases used primarily as refrigerants and aerosols. At ground level, their release is harmless, but once CFCs reach the upper atmosphere, they destroy the layer of ozone that absorbs much of the ultraviolet radiation of the sun. The failure to curb production of CFCs is expected to lead to an array of health problems, including dramatic increases in eye cataracts, skin cancers, and premature mortalities. In the United States, CFCs are used in over 100,000 commercial building air conditioners, 40,000 supermarket display cases, 90 million cars and trucks and over 100 million refrigerators.

All major industrialized countries have signed onto the Montreal Protocol, a global agreement to cut CFC use in half by the year 2000. This agreement has placed a severe burden on responsible companies. The chemicals industry, for the first time, is phasing out an entire group of compounds for purely environmental reasons. Du Pont, committed to spending $1 billion over the next decade converting its plants to a less-hazardous product,[4] estimates that the industry will have to spend upwards of $5 billion over the next decade developing alternatives. "In the United States alone," Du Pont reports, "there is now more than $135 billion worth of installed equipment dependent on the current CFC products."

Although Du Pont has been joined by Allied-Signal in the United States and Imperial Chemical Industries PLC in London in developing pilot plants, problems abound in using these chemical substitutes. General Motors has tried and abandoned two substitutes for the CFCs used in their auto air-conditioners. Their third try, HCFC-22, which seems promising, requires redesign of the coolers, and probably the cars themselves—a move expected to cost hundreds of millions of dollars. To use HCFC-22, whose molecules are small and can easily leak out, a totally new air-conditioning unit is required.

This kind of problem has led companies that use CFCs for cleaning electronic circuit boards to rethink the possibility of chemical substitutes. Northern Telecom Ltd. of Canada has introduced a new system using water for this purpose, while AT&T has developed a new technology that eliminates the cleaning process in circuit-board manufacturing.

Hazardous and Toxic Chemical Waste Disposal

More than 30,000 U.S. companies are under public and private scrutiny as a result of Title III of the Superfund Amendment and Reauthorization Act (SARA). The law requires companies to make available detailed information on the storage and handling of hazardous and toxic chemicals in and around their facilities. Title III applies not only to chemical companies; it includes all firms that use, import or manufacture any of more than 300 identified substances.

Industry sees the Superfund process as burdensome and costly, yet essential to the nation's welfare. Particularly demanding are SARA's toxic chemical release reporting requirements. Businesses with 10 or more full-time workers who use or handle more than specified threshold quantities of certain chemicals are required to report routine releases of over 300 listed toxic chemicals. Information must include the quantity of each chemical released into air, water or soil; estimates of quantities at each site for the preceding year; a description of waste treatment methods and evaluations of their efficiency. The right-to-know provisions of the legislation mandate that this information be made available to communities.

> The hazardous wastes issue is especially important to all industries due to the public preconceptions; it is almost impossible to site a center to handle hazardous wastes. The public demands complete removal of all hazardous wastes, yet still demands the goods and services that create it. The federal government continues to expand the list of hazardous substances, sometimes with dubious data, and then it almost takes an act of Congress to correct these mistakes to remove errors from listing.
>
> *—a Southern textile firm*

As companies retooled to follow the law, there was a brief flurry of non-compliance. Companies may be subject to fines of up to $25,000 per day, making non-compliance simply too costly an option.

Endless Liabilities

Many companies are faced with cleaning up sites that are no longer controlled by the corporation, sites that until recent years were in compliance or had no regulatory requirements. These sites typically involve large remediation costs with "joint and several" liability for all contributing parties. "We are concerned with the direction environmental law has taken and the deviation from established legal precedents," writes a manager from an Ohio construction company. "We should attempt to develop a more positive relationship between corporations and government agencies with a means of resolving differences without rushing to litigation."

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[4] E. Patrick McGuire, *Environmental Progress Since Earth Day 1970*, The Conference Board, Research Bulletin 243, 1990.

A New Jersey utility's environmental affairs director comments:

> The cleanup of former manufacturing sites is a big issue for us. These sites were closed down or sold off in the 1950s prior to the realization of many environmental concerns. These sites are presently in varying land uses; it's difficult to gain access, to implement remedial actions. And there is continuing uncertainty over how clean is clean.

Classification of toxics adds to the already high level of confusion. A chemical in one process is considered toxic, while the same chemical in another process or context is not. Strict interpretations of regulations require classifications of some side streams as hazardous waste. Historically, industries like natural gas, for example, have sold these commodities as product to be reused or recycled. Classification as a hazardous waste has resulted in the disposal of a valuable resource and changed a revenue source into an expense for those companies affected.

A new category of liability issues has appeared. Parent companies are now liable for the environmental Superfund liabilities of a subsidiary. Kayser-Roth, a New York apparel manufacturer, has been ordered to pay $846,000 for environmental cleanup costs already incurred at a former Rhode Island textile mill. Additional costs for Kayser-Roth could run to the millions as the firm will be held liable for future costs. As the sole shareholder until the subsidiary's dissolution in 1979, the court held that Kayser-Roth had full control over the company's operational and fiscal decisions. The decision significantly broadens the interpretation of who can be held liable under the Superfund law, and pierces the "corporate veil" that some polluters hide behind.

One electrical equipment manufacturer states that:

> The Superfund program is out of control. Fifty to sixty percent of the money is spent in court or for identifying responsible parties. If more money, time and effort were given to correcting the situation, a great deal could be accomplished.
>
> As for hazardous waste disposal, the 'not in my backyard' syndrome, combined with the bureaucratic nightmare of permitting procedures, severely limit options for safe disposal and recycling. Soaring hazardous waste handling costs could lead to increased illegal dumping and an increase in the cost of consumer goods.
>
> We see too much of the knee-jerk reaction of elected officials when they enact technical standards based on public opinion. The federal and state governments have the technical expertise to set standards; elected officials should broadly direct the agencies by setting goals, realistic deadlines and providing funding while making it clear that we cannot exist in a "zero risk" society.

Improving Community Relations

Companies have put time and money into building understanding of their firm's processes and practices. Some companies have recognized that the public must perceive them to be part of the solution, not just part of the problem.

Dow Chemical has produced brochures for both local communities and employees explaining its programs. Dow has also established a computer database and made it accessible to the public. Under Dow's Product Stewardship System, a Dow employee will not sell a product if he or she believes it will be used or stored in an unsafe manner.

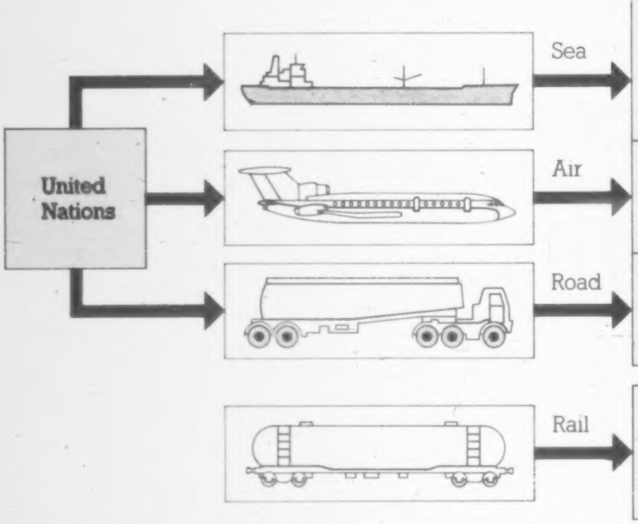
Firms with deep roots and a long history of service to the community seem better prepared — or more willing — to take vigorous, positive action when faced with a potential catastrophe. The Eastman Kodak Company pipe rupture in late December 1988 spilled about 30,000 gallons of methylene chloride (a suspected carcinogen). Although no health problems have emerged to date, Kodak has pledged more than $100 million to study and clean up the contamination and to investigate systems and procedures to prevent future problems. This was Kodak's second problem; the first centered around reports that contaminants had seeped off company property and into the soil and groundwater supply of the adjacent neighborhoods.

Kodak has two programs in place that are designed to restore their position and credibility in Rochester, New York, the company headquarters. The first is a home-owner assistance plan, designed to stabilize property values. It provides home-improvement grants and mortgages and pays moving expenses for those who decide to leave the area. The second is a five-year program to restore and/or replace 1,000 underground chemical tanks. Kodak also plans to overhaul its smokestack system to reduce emissions by two-thirds over a six year period. *Fortune* magazine consistently ranks Kodak among the top three companies in community and environmental responsibility.

Trade Associations

Following the Bhopal accident, the U.S. Chemical Manufacturers' Association (CMA) began the

Exhibit 2
International transport regulation for chemicals



International Maritime Organisation
- Sea transport of packed products worldwide. Regulations are published in the International Maritime Dangerous Goods Code and MARPOL Annex III.
- Sea transport of bulk products worldwide, Regulations are published in:
  - Code for Construction and Equipment of Ships Carrying Dangerous Chemicals in Bulk.
  - International Code for the Construction and Equipment of Ships Carrying Dangerous Chemicals in Bulk.
  - Regulations for Control of Pollution by Noxious Liquid Substances in Bulk (MARPOL Annex II).

International Civil Aviation Organisation
- Concerned with air cargo transport worldwide. Regulations are published in the Technical Instructions for the Safe Transport of Goods by Air

Inland Transport Commission
- Concerned with international transport by road. Regulations are published in the European Agreement for the International Carriage of Dangerous Goods by Road

International regulations for transport by rail are developed and controlled by a representative body comprised of participants from the various national railway authorities. Regulations are published in the International Regulations for the Carriage of Dangerous Goods by Rail (RID).

Source: Shell Briefing Service, Shell International Petroleum Company Limited

Community Awareness and Emergency Response Program (CAER). Their plan is to remove the threatening mystique of the chemical industry by providing an opportunity for dialogue between plant managers and community leaders. When Title III became law, they added another component to CAER dealing with compliance and communications requirements.

The National Association of Manufacturers (NAM) has been active in supplying information to its members on how to handle compliance problems. The largest specialized group, The National Solid Waste Management Association, numbers Browning-Ferris and Waste Management, Inc. among its 3,000 members. Most of the members are in the garbage-hauling business, but there is good representation from companies involved in managing landfills, waste energy facilities and recycling center construction. Members of the Hazardous Waste Materials Advisory Council, another active and highly visible trade association, include chemical companies and railroads, as well as trucking companies, container manufacturers and pharmaceuticals firms.

Waste Reduction

Disposal methods that are entirely legal now may prove to be inadequate in the future. In a shift of emphasis, the EPA is promoting technologically interesting but, to some degree, unproven technologies to resolve these issues. A parallel effort is being encouraged to reduce the volume of hazardous wastes at the point of generation.

Ciba-Geigy responded to a public and government furor over groundwater contamination at its Toms River, New Jersey plant by eliminating the use of thousands of pounds of mercury.[5] After receiving the highest environmental fine ever imposed by the State of New Jersey and further battering by being designated a Superfund site, company scientists developed a new process for producing cotton dyes, eliminating mercury as a catalyst.

Companies like Borden, Monsanto, Exxon, 3M and Dow have saved hundreds of thousands of dollars by waste reduction methods. Their stories have been well-documented and well-publicized.[6] Industry critics find it puzzling that so few other waste-generating firms have followed their lead. INFORM, an environmental research organization, finds this to be the case:

> INFORM's research found that the focus within waste-generating firms has been on the proper handling of wastes to prevent environmental concentrations from reaching harmful levels. Most large firms have established environmental departments to make sure they comply with or even anticipate

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[5] Claudine Schneider, "Hazardous Waste: The Bottom Line is Prevention," *Issues in Science and Technology*, Washington, D.C., Summer 1988, p. 75.

[6] See Robert Steyer, "The Toxic-Emissions Learning Curve," *Across the Board*, December 1988, and E. Patrick McGuire, *Environmental Progress Since Earth Day 1970*, Research Bulletin 243, 1990.

regulatory requirements, and their environmental managers are charged with overseeing the handling of wastes already created.

> Process operations managers, on the other hand, are ideally situated to identify sources of waste, being intimately familiar with the various stages of plant activity. But they generally have had no authority to make changes in plant operations to address environmental problems.
>
> In short, the people who could affect hazardous waste production at the sources are not called on or given strong incentives to do so. Meanwhile, government officials regulating plants focus on pollution control, treatment, and disposal rather than sources and prevention.[7]
>
> —*Joanna D. Underwood*
> *President, INFORM*
> *New York, NY*

This does not improve the public's perception of the industry, and it increases pressure on elected officials to ameliorate what are seen as potentially catastrophic events.

> The image of the chemical industry is poor...Reactions of mistrust and fear in the public drive the politicians to take hastily any "remedy" good or bad. The chemical industry has to become recognized not as a problem, but as part of the solution.
>
> —*a Belgian chemical company*

Waste Transport

Most chemical products are not used on the sites where they are manufactured, and in Europe this means transport across several national borders. Western Europe moves about 220 million tons of chemicals per year by air, sea, rail and road transport; a shipment of hazardous wastes crosses a national frontier every five minutes. This is a highly regulated activity, with comprehensive legislation developed by international conventions spearheaded by the United Nations (see Exhibit 2 on page 30).

Hazard categories are assigned under a system of classification which divides toxic wastes into various categories (for example, highly flammable, corrosive, or explosive). Each category has its own set of regulations stipulating how it should be handled during transport, the type of containers that should be used, labeling, liability, etc.

European companies are improving their capacity to recycle and recover raw materials in-house; they find it cost-effective as well as environmentally sound.

> We recycle over 90 percent of the organic solvents we use. By the use of modern engineering techniques, emissions to the atmosphere are steadily reduced. We target those remaining sources which involve substances of ecological significance in the first instance. However, we regard all emissions as wasted resources.
>
> —*a British pharmaceuticals company*

The United Nations is one of four major international organizations regulating and monitoring hazardous wastes. The others are the Organization for Economic Cooperation and Development (OECD), the Commission of European Communities (EC) and the North Atlantic Treaty Organization Committee on the Challenges of a Modern Society (CCMS).

OECD is the most active organization, and recommended in 1976 that member countries adopt comprehensive waste management policies. Charged with promoting the economic growth of member countries — and assisting less-developed countries — OECD was in a position to be aware of waste shipments from the former to the latter. As a result, OECD's coordinating system now matches national obligations for monitoring and control whenever wastes cross national frontiers.

The OECD is without supranational authority; it cannot adopt, monitor or enforce legislation. These powers fall to the EC; governments formally commit themselves to implement EC regulations and directives; they are legally required to do so. The EC's policy on commercial chemicals, more than 20 years old, was reinvigorated by the amendments to the Treaty of Rome in the Single European Act of 1987[8] placing environmental protection in a key policy position.

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[7] Joanna D. Underwood, Letter, *Issues in Science and Technology*, Washington, D.C., Fall 1988, p. 21.

[8] The Single European Act is the engine that drives the economic integration of Europe, "1992."

Company Initiatives

Some of the businesses affected by environmental regulations can expect a slowdown in revenues and an increase in costs. Other companies, however, plan to clean up on the cleanup. As environmental issues come into their own in the 1990s, the investment community sees opportunities in trash disposal and pollution abatement technologies. The solid waste business, for example, is particularly attractive: during the study period, Smith Barney's index of stocks showed a rise of 59 percent for solid-waste business against an overall 27 percent stock market rise. The well-publicized scarcity of landfill sites, and the problems large cities have in coming up with alternative plans, make investors comfortable with the projected long-term rise in solid waste disposal stocks.

Analysts also see the long-overdue cleanup campaigns of the Departments of Energy and Defense as a boon to investors. Pollution abatement spending by both corporations and governments is on the rise, and investment opportunities are expected in businesses that specialize in air and water filtration systems, recycling, and machinery and tool cleaning.

The anticipated rises are not limited to the United States. Expenditures are expected to increase steeply in both Western and Eastern Europe. Some European environmental-management programs are moving ahead at a faster pace than they are in the United States. These include recycling, incineration, trash-to-energy plants and consumer awareness. Europe is expected to make major expenditures on environmental systems as part of the 1992 economic unification plans. Investment analysts predict a rise in investment in environmental management systems to go from $50 billion to $150 billion over the next decade. In Eastern Europe, where environmental conditions are horrendous due to utilities' burning of sulfurous brown coal, there is expected to be demand for new environmental techniques. How this is to be paid for is still a mystery.

Some New Ventures

To close the $750 million-a-year gap expected from the phaseout of CFC production, Du Pont has formed a safety and environmental resources division. By the time the company has phased out CFCs, the new division should be delivering annual revenues of $1 billion.

Westinghouse has made a substantial investment in cleanup technology. Its 1987 acquisition of an engineering and remediation company was the beginning of the Westinghouse Environmental and Geotechnical Services Inc., with 40 branch offices in the United States.

Some companies moved too quickly. Safer, Inc.'s success in selling biodegradable pesticides—doubling its sales from $10 to $20 million in one year—has not been matched by profitability. Encouraged by its sales to the home gardener, Safer attempted to break into the $3 billion agriculture and commercial pesticide business. Developing too many products too fast to maintain inventory and with applications too limited for the commercial grower, Safer has now returned to a more modest product line.

Responding to the anticipated restriction on the use of VOCs, Union Carbide has developed a spray paint which uses carbon dioxide to replace up to two thirds of the formerly used hydrocarbon-based solvent which, when it mixes in the air with nitrogen, forms ozone. Although carbon dioxide is itself a recognized pollutant, Union Carbide claims the gas used will be collected by-products of other industrial processes.

Caveat Emptor

Manufacturers are repackaging everything from disposable diapers to trash bags in an attempt to convince the consumer that the company product is "environment-friendly." Pressure on companies came from retailers, responding to consumer concern, who encouraged manufacturers to alter their products and packaging. Dayton Hudson's Target discount unit has gone even further and developed an environmental brochure for distribution at cash registers. It supplies tips to customers on steps they can take at home to improve the environment.

Independent surveys show that a company's reputation on environmental issues has an effect on consumers' purchasing decisions. In a series of U.K. opinion polls reported in the October 24, 1989 issue of *The Economist*, 42 percent of British respondents made a deliberate choice in buying a "green product" once in the preceding year—up more than 100 percent from the year prior. Furthermore, respondents were willing to pay more for environmentally safe products.

In France, a new biodegradable trash bag is made from corn extract. West Germany's AEG launched an advertising campaign in the United Kingdom to promote the environmental advantages of its more efficient dishwashers. Loblaws, a Canadian supermarket chain, has developed its own line of "green" products, primarily trash bags, gardening products and cleansers.

In the United States, Procter and Gamble has marketed its first product pitched straight at the environmentally aware consumer. The new Downy Refill comes in a large plastic container and is designed to be measured into a used plastic Downy container and mixed with water to make fabric softener.

Sweden and West Germany were the European leaders in environmental marketing, taking the initiative in developing environmentally sound products. France and Britain caught up quickly. Products appeared on supermarket shelves with labels proclaiming them to be environmentally sound and explaining their beneficial features. Some claims, however, were found to be unsubstantiated, leaving manufacturers in the awkward position of looking worse than they did before the introduction of new packaging.

The rush to "green" products has been so swift that charges of fraud are beginning to be levied against companies whose products may prove to be less than claimed. For example, fast-food foam containers and other food wraps are labeled recyclable but there are little or no facilities or programs to facilitate recycling. In another case, BP Oil's new "Supergreen" gasoline was reported to contain several toxic compounds.

Recycling

The explosion of used packaging materials, either recyclable or otherwise, presents a major industrial impact and challenge. Not enough materials are truly recyclable and the facilities and capabilities to process recyclable material are inadequate. However, the number of consumers willing to recycle continues to grow.

- Wal-Mart, the giant discount retailer, has asked each of its suppliers—more than 7,000—to provide the stores with more recyclable or recycled products.
- Amoco is expanding its operations in plastics recycling. Amoco Foam Products and Amoco Fibers are major suppliers to the food-service and carpet industries and make extensive use of recycled plastics.
- Enviro-Chemie of Zurich has developed a machine which recycles the water from car wastes, feeding it back into a tank where a combination of aluminum sulfate, calcium carbonate and volcanic ash extract the oil and sludge.
- H.J. Heinz Co. will use plastic bottles made of polyethylene terephthalate (PET) which can be recycled through a network of PET centers. This will replace their old plastic bottles whose complex make-up virtually precluded recycling.

Source Reduction

While most of the recent effort has been directed at waste disposal or recycling, attention is beginning to be paid to pollution prevention, or source reduction, as it is often called.

- Dow Chemical is changing a production process at one of its polyethylene plants that is expected to decrease wastes by a million pounds per year.
- Digital Equipment Corporation has saved millions of dollars minimizing packaging materials and using smaller containers.
- 3M is spending more than $80 million to improve or replace their underground storage tanks for liquids and gases. 3M will complete this in the United States by 1992 and worldwide by 1993, well ahead of the United States regulation which calls for compliance by 1998. 3M's Pollution Prevention Pays program focuses on practices that reduce pollution and cut company costs at the same time. Since its inception in 1975, the program has saved 3M over $1 billion.

Public Perception/Building Credibility

"Corporations don't do a very good job of letting the public in on their efforts to be good citizens. The press does a job on the bad news, while we on the inside don't do much about the good news." This comment, from a chemicals company executive, was repeated across companies and industries. Many respondents hold that it is no longer sufficient for a company to promulgate sound environmental policies and programs; the public must perceive this to be so, or sales of products and services may suffer.

Industry has spent enormous amounts of money on research in an effort to convince the public that their products are not harmful. Indeed, some of the sounder research is done by companies themselves or their industry organizations. The American Petroleum Institute (API), the Chemical Manufacturers Association (CMA), and the Electric Power Research Institute (EPRI) have all produced scientifically valid studies. The trouble is that often the public does not buy the results—they are seen as tainted.

Despite the present quality of industry-sponsored research, the public remembers past company-sponsored studies of asbestos, cigarettes, and dioxins. In these cases, critics say, findings delivered by company scientists were either ignored by management, or kept from the public. Industry-backed institutes are said to continually struggle against the public conviction that their conclusions are shaped by the company line.

The bottom-line pressures facing companies today, combined with the growing costs of research on problems which are interdisciplinary in nature, argue for pooled resources and industry-wide studies. EPRI, for example, operates a $379 million annual budget coming entirely from its 700 members.

One of the boldest industry-wide moves followed the *Exxon Valdez* spill. Shortly after the spill, the oil industry regrouped and announced a $250 million program to prevent major spills and to combat the damages should spills occur. An independent agency will create five regional response centers staffed and equipped to handle catastrophic spills anywhere in the United States. The American Petroleum Institute, the industry's major trade association, played a key role in organizing the industry effort to convince an aroused public that oil companies are responsible citizens.

When the *Exxon Valdez* ran aground off Alaska, it triggered the most catastrophic oil spill in U.S. history (see Exhibit 3). It also, critics say, undermined the oil industry's credibility and threatened future exploration. Up to that point Exxon's safety and pollution record was among the best in the industry. In two years of cost cutting, company management eliminated duplication in managerial layers, pushed costs down and held net income steady. But a company's chairman is still held responsible, in the court of public opinion, for his company's environmental performance.

In an interview with the *Wall Street Journal*, Lawrence G. Foster of Johnson & Johnson said: "Regardless of how many public relations people you have, the chairman is the single most responsible spokesman a company has." This was certainly true of J&J following the poisoning of Tylenol in 1982. Within 48 hours, Chairman James Burke was speaking with reporters. Union Carbide, following the Bhopal chemical leak that resulted in the death of thousands, was also well-prepared, and within two days Chairman Warren Anderson held a news conference. By the next day he was en route to India. Exxon reacted more slowly and critics pounced on this slowness.

> When you have something which hasn't been handled right and it shows up on your TV screen in color, you've got a problem. If Exxon had been there on Day One, they could have played quite a different role in directing what had to be done. Once you get other people deciding what they want to be done, and you want to do something different even though it may be better, you're at a disadvantage.
>
> If you are not in a position to take control, to establish your plan as THE plan, you are then faced with a pretty broad collection of interests. If you're there right at the beginning, you're in a position to be a major influence with the federal agencies, the Coast Guard, the Department of the Interior and with the State of Alaska.
>
> —*an oil industry spokesperson*

Exhibit 3: Oil Disasters, Compared

World's Largest Tanker Spills		
Amoco Cadiz runs aground off the coast of France	March16, 1978	1,620,000 barrels
Atlantic Express in collision with second ship off Trinidad	July 19, 1979	1,020,000 barrels
Torrey Canyon grounded off Isles of Scilly	March 18, 1967	860,000 barrels
United States' Largest Tanker Spills		
Exxon Valdez runs aground off Valdez, Alaska	March 24, 1989	240,000 barrels
Argo Merchant grounded off southeastern Massachusetts	December 15, 1976	180,000 barrels
Burmah Agate burns after a collision in Galveston Bay, Texas	November 1, 1979	62,000 barrels

Source: "Oil & Dirty Hands," The New York Times, April 5, 1989, p. A28. (Based on Golob's Oil Pollution Bulletin.)

A Summary of the Valdez Principles

Protection of the Biosphere: Signatories will try to eliminate pollutants that damage the air, water or earth.

Sustainable Use of Natural Resources: Pledges use of renewable resources, conservation of non-renewable materials and preservation of biological diversity.

Reduction and Disposal of Waste: Pledges minimizing and safely disposing of hazardous wastes.

Wise Use of Energy: Calls for energy efficient products and processes.

Risk Reduction: Pledges reducing environmental risks and preparing for accidents.

Marketing of Safe Products and Services: Pledges disclosure of environmental impact of products and services.

Damage Compensation: Pledges restoration of damaged environments and compensation for human injury.

Disclosure: Pledges disclosure of accidents and hazards and protection of employees who report them.

Environmental Directors and Managers: Companies agree that at least one board member will be an environmental expert. A senior executive for environmental affairs will also be named.

Assessment and Annual Audit: Pledges annual environmental audit of worldwide operations. Audit is to be made public.

Source: New York Times, September 10, 1989

The oil industry monitors itself closely. For example, Chevron conducts a continuous tracking study to try and get a feel for what the public thinks of the oil industry and individual companies. The study, which is called "The Public Opinion Monitor," measured a 15 percent drop in favorable attitudes toward the oil industry immediately after the Exxon Valdez accident.

In September of 1989, following the *Valdez* spill, an ad hoc group of institutional investors and environmental groups drafted the Valdez Principles, asking companies to take responsibility for past and future accidents (see box). Most importantly, the institutional investors control assets totaling $150 billion, much of it from public pension funds. The group is calling for, among other things, an annual public audit of a company's environmental progress and the appointment of an environmentalist to each corporate board. The "principles" are driven by the Massachusetts-based Coalition for Environmentally Responsible Economies (or Ceres, after the Roman goddess of agriculture).

Some oil companies have been more successful than Exxon in being perceived as environmentally oriented. For example, ARCO is the first company to market an alternative fuel. ARCO's EC-1 Regular is heralded as the first emission control gasoline. All lead was eliminated, as was one-half of the benzene and up to one-third of other aromatics and olefins. Sulfur was reduced by up to 80 percent and vapor pressure by a full pound per square inch below the California standard. Unlike other proposed alternative fuels, ARCO EC-1 does not require engine modification or increased costs at the pump. "I don't know whether this will mean a significant difference to air pollution," says a competitor with grudging admiration, "but ARCO is certainly saying to the consumer, 'we're trying'."

This seems to be the sentiment in Los Angeles, but in Alaska, where most of ARCO's operations are located, skeptics abound. The State of Alaska, as well as environmental groups, believe the major blame for the *Exxon Valdez* spill should be borne by the Alyeska Pipeline Company, which is more than 20 percent owned by ARCO.

BP is another company deeply affected by the Exxon spill. With the acquisition of Standard Oil, renamed BP America, half the company's assets are in the United States. BP is twice Exxon's size in Alaska, and the great oilfield on the North Slope is probably the firm's most precious asset, representing a third of its total capital. New, stringent regulations can only be damaging to BP. The firm is in the midst of a corporate "greening." The corporate logo — the highly recognizable BP shield — has become green, and the company is currently involved in projects ranging from bird sanctuaries to an atlas of the globe's rain forests to research on ozone depletion.

Chemical companies are in the forefront of the movement to reestablish credibility with the newly environment-conscious public. In an effort to keep up with changing public attitudes towards the environment, the U.K.'s Imperial Chemical Industries (ICI) has set up a major information program to inform the public about how ICI plans to cut pollution.

Managers at more than 100 plants worldwide will collect and collate data relating to waste emissions, complaints about pollution, and the extent of individual plant's compliance with local environmental laws. Plant managers are also preparing plans to improve their facilities' environmental performance. Reports will be reviewed by the board as the company tries to coordinate all its environmental activities.

ICI is Britain's largest manufacturing company, and the world's fourth biggest chemicals company. As such, it finds itself — with the rest of the industry — at the center of the debate on the influence of chemical manufacturers on the environment. The new program to cut toxic waste emissions is part of ICI's overall program on health, safety and environmental performance. It is expected to cost the company £100 million a year, about 10 percent of its total capital investment.[9]

It is not only profitable companies that are "greening up." Manville Corporation, struggling to emerge from bankruptcy proceedings, has gone ahead with an environmental makeover. Recognizing that a company can no longer merely change its logo and make public pronouncements, management has designated an independent health, safety and environment committee to audit all operations and policies. Waste sites are moving swiftly towards compliance with government-regulated standards, and scrubbers are being added to all smokestacks. Manville believes it necessary to make these changes now, despite serious financial problems resulting from its asbestos-related liabilities and the need to modernize plants and facilities.

In addition to plant modifications and public information campaigns, business is beginning to look at its own land resources as a way of building goodwill. Companies with large land holdings surrounding their headquarters, plants and facilities are beginning to use the acreage for wildlife habitats. Corporations own about 40 percent of the land in the contiguous 48 states and maintain wide buffer zones for security, safety and liability reasons and to leave room for future expansion.[10] Instead of sending out giant power mowers to keep the acreage manicured, groundskeepers are now seeding for tall grasses and shrubs digging and stocking ponds, and thinning woods (see box).

Corporate Projects to Preserve the Environment

—Du Pont is managing a 1,200 acre wetland at the confluence of the Saginaw River and Saginaw Bay to encourage nesting by terns. The company provided acreage along a transmission right of way to the Michigan Wildlife Habitat Foundation for a duck-nesting project and is placing nests on its utility poles.

—The Delmarva Power and Light Company constructed a breeding pond, at a cost of $50,000, to help save the Chesapeake Bay's disappearing stocks of striped bass. The utility has already released more than 40,000 fingerlings into Maryland's Nanticoke River.

—Tenneco Inc. dismantled five obsolete offshore oil platforms and moved them 900 miles to create an artificial reef for marine life off the Florida coast. The project has increased the number and diversity of marine species.

—The ARCO Coal Company went beyond legal reclamation requirements to rehabilitate a stripmined area in Wyoming in ways that would enhance biological diversity. Among other projects, it turned a sediment reservoir into a pond stocked with bass.

—The grounds of a Remington Arms ammunition plant in Lonoke, Arkansas, were enhanced for wildlife by plant employees who cleared brush to provide cover for deer and bobwhite quail, planted fruit and pine trees, and installed bluebird and duck boxes and hummingbird feeders.

All this looks very good in the press. It makes great copy and the visuals on television bring a positive response. But the press can be manipulated to a company's disadvantage, as one oil company spokesman reported:

> When we had a river spill last July, we cleaned it up within 48 hours. When it was over, our people put together a video clip of all television coverage of the event. The media was summoned by an environmental organization which hired a diver and held a press conference on the bank while the diver went down. The diver came back up and said our company and the Coast Guard had done what they said they'd do and gave us a clean bill of health. Who was this organization? Two people. And only one of the four television stations convened for the event reported this. So you see, the public perception was of a big organization.
>
> I see this in my activities outside the company, because I'm an elected official [in the local community]. People are not very willing to compromise. There's no middle ground; a few people know what they want, and there are zealots on both sides. It's the 85 or 90 percent in the middle that generally don't get involved until it blows up.
>
> One of the main things we try to do in the company is build a bridge of credibility and communication so that when we work on a project together it's because we both realize it's something that is needed. Hopefully, we open up dialogue and widen the spectrum of the agenda by just talking about it. It's important, but it takes time. It's a long-term commitment and you need people behind it, not just from the company perspec-

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[9] Peter Marsh, "ICI Sets Up Checks in Drive to Cut Pollution," *The Financial Times*, London, June 15, 1989, p. 10: SO9.

[10] Interview with Joyce M. Kelly, executive director of the Wildlife Habitat Enhancement Council, March 21, 1989.

tive. We find people volunteering on weekends and after hours — we're getting that kind of commitment from our people, and internally from the company.

Companies are looking increasingly to their Public Affairs units for results. A closer link to Public Affairs might protect the environmental officers from embarrassments such as the recent incident involving a large chemical company's claim that its trash bags were biodegradable because of a chemical additive causing it to decompose in sunlight. Acknowledging that the vast majority of landfills in which these trash bags are buried are never penetrated by sunlight, a company spokesperson admits that the product is now being withdrawn from the market.

Taking the Environmental Initiative: Chevron's Experience

In today's emotionally charged environmental issues climate, the oil industry has much at risk. Some oil companies have had difficulty dealing with the day-to-day issues and responding to crises. Others are working to make certain their companies' messages are received by all the internal and external communities affected by their products. Chevron is one of these companies.

The Vision at the Top

George Keller, the former CEO of Chevron, determined that his industry should take a leadership role in resolving environmental issues. He refused to accept the adversarial role thrust on him by critics and encouraged the rest of his industry to do the same. Keller called on technology to solve environmental problems, saying this was "the special genius of American industry." He advocated a "new philosophy" and then proceeded to see to its implementation within his own company.

Chevron saw that two of the biggest problems in California had to do with meeting significant standards in terms of air and water pollution. The company had already taken a leadership role in water problems with regard to its Richmond refinery which discharges large amounts of water into San Francisco Bay.

The second element, and the one which generates perhaps the greatest fear in the public mind, involved toxic waste. Chevron began a major in-house project to see what could be done to reduce toxic materials, recycling these materials within company plants, even changing how certain products were manufactured.

One of the key moves towards implementing Chevron's philosophy has been its participation in the formation of a non-profit risk-assessment institute. California law sets out specific objectives and limitations on carcinogens and chemicals causing birth defects and it is now possible to measure these in parts per billion. California regulations say that none of these may enter the ecosystem.

The missing element, Chevron believed, was the question of risk. For example, at what level is the quantity, or concentration, of one of these materials a meaningful risk to the population? The objective in forming the Institute for Evaluating Health Risk was to create a qualified independent agency, not in business, not in government, but one jointly sponsored to develop reasonable information on levels of health risk. The Institute allocates funds to groups of researchers to try to evaluate the levels of various materials which really constitute risk.

The company believes credibility to be a key element in successful grass roots techniques to change the way the public views its environmental efforts. Ten years ago in a Denver suburb, a problem—and the firm's response—helped change the culture within the company.

A group of homeowners in Northglenn smelled gasoline fumes in their basements. There were two service stations—Chevron and Amoco—half a mile uphill from these homes. Were they the source of the fumes? The dealer who leased and operated the Chevron station promptly examined his inventory records and assured the company that he had not lost any gasoline. His station's storage tanks were tested and showed no leaks. On that basis, Chevron denied any responsibility.

In the subsequent long and expensive lawsuit brought by the city and homeowners, Chevron discovered that it should have been more willing to help the homeowners overcome their problem. Investigations revealed the underground product lines at Chevron's station had been leaking for some time and the dealer had not adequately reconciled his inventory records to discover the large loss of gasoline. As a result of its costly and embarrassing Northglenn experience, the Chevron's policy became "fix it first and find out where the problem is later."

Communicating Environmental Policy

Chevron's current CEO, Ken Derr, continues this policy. The company's commitment to sound environmental management starts at the top. The senior officer for environmental affairs sits on the Public Affairs Committee, the group that directs policy formulation. Other members include the senior officers for the public affairs, human resources, exploration, law, and operating divisions. The Committee has three major responsibilities: to consider and counsel on major public affairs objectives; to review and approve strategies, policies and programs for public affairs objectives; and to counsel on corporate position statements.

An internal communications strategy has also proven effective for Chevron. The goal is that employees throughout the company "understand and share common objectives and goals and to provide a forum for sharing ways to increase effectiveness."

Of particular interest are the objectives that have led to Chevron's down-the-line success in policy implementation. The relevant components are:

- To project a positive message in company communications that stresses competence and commitment to serve society's energy needs.
- To maintain regular contacts with major elements of the print and electronic media. Increase involvement of corporation and operating company management in media contacts through facility tours, editorial visits, receptions, interviews and briefings. Use crisis training courses to better prepare employees to react to crisis situations and to respond to community concerns.
- To emphasize the ability and commitment to protect the environment. Work closely with environmental reporters to achieve more balanced reporting on environmental issues. Increase efforts to train more of Chevron's environmental scientists in media techniques so they can effectively articulate the company's position on environmental issues. Seek more public speaking opportunities for these scientists.
- To promote speeches by management and informed employees to targeted audiences. Capitalize on speeches through reprints and as a basis for special articles, Op-Ed pieces, press releases and follow-up interviews.
- To encourage employees to speak out about matters concerning their company. Use internal communication programs to strengthen their familiarity with public policy, environmental and other business issues that affect the company's operations.

Chevron has a variety of environmental initiatives under way, both inside and outside the company. These include participating in a Moscow trade conference, a national advertising campaign that focuses on Chevron's efforts to protect endangered species, support of the Institute for Evaluating Health Risk by supporting environmental risk assessment research at top universities around the country, and a voluntary waste reduction plan called "SMART" (Save Money and Reduce Toxins). Since 1986, the company has reduced by 60 percent the hazardous wastes it generates through routine processes and disposes to land.

Summary

The tone and character of the environmental movement has changed significantly since the 1970s. To quote Paul Huard of the National Association of Manufacturers, the debate is no longer clean vs. dirty, it's warm vs. warmer. This matter of degree rather than premise shifts the discussion to a plane where marginal or incremental costs matter more now than in recent decades. Companies facing critical bottom-line concerns are taking an active role in framing the parameters of new legislation, rather than obstructing it. At the same time, many firms are tackling environmental problems at the beginning of the production cycle, rather than waiting for restrictive government policies to threaten their operations.

Community and citizen pressures are reshaping company policies. In the United States, where environmental issues have long been considered a Democratic province, a major shift of Republican sentiment is in evidence. In Western Europe, in only a decade, Green Party members have moved from the radical fringe into city halls, national governments and the European Parliament in Strasbourg. The Canadians are adopting some of the best of Green policies, the belief that the pursuit of a sustainable economy will ease many of the pressures associated with tax policy, inflation and exchange rates.

A common thread ran through many of the interviews held for this report: the need for disputing parties to work together toward solutions that all parties can live with. Everyone seems to want the same end, but no one knows quite how to get there.

Appendix Tables

Table 1: Factors Reflected in Environmental Policy Decisions

Factor	*Aggregate*	*U.S.*	*Canada*	*Europe*
Social responsibility	32%	31%	36%	32%
Response to legal or regulatory requirements	69	72	69	58
Response to community pressure	8	8	8	7
Response to shareholder pressure	8	8	9	4
Response to liability pressure	21	26	21	4

Table 2: External Constituents' Importance to Firm (by Percent)

	Aggregate	*U.S.*	*Canada*	*Europe*
Customer	35%	39%	29%	28%
Stockholder	12	12	9	16
Federal or national governments	23	27	17	17
State or regional governments	34	29	53	20
Local governments	14	9	16	30
Environmental activists	2	2	2	2
Community	10	7	17	7
Financial community	4	5	4	3
The media	6	5	9	7

Table 3: Who Represents the Company in the United States? (by Rank)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	7	6	7	10	8
Manager or director of corporate unit	4	5	2	3	4
Plant or facilities manager	6	10	4	2	2
General counsel	3	3	3	4	4
Environmental affairs officer	1	1	1	1	1
Public affairs officer	10	9	8	5	3
Government relations officer	8	4	5	7	7
Tax specialist	10	11	9	11	12
Financial officer	11	12	10	12	11
Trade association representative	2	2	2	9	9
Lobbyist	9	7	6	8	10
Consultant	5	8	6	6	5

For percentages, see Appendix Table 7

Table 4: Who Represents the Company in Canada? (by Rank)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	3	2	2	4	5
Manager or director of corporate unit	2	3	1	3	3
Plant or facilities manager	4	8	4	1	1
General counsel	6	4	5	7	9
Environmental affairs officer	1	1	2	2	2
Public affairs officer	8	7	8	6	4
Government relations officer	7	6	7	8	7
Tax specialist	10	9	10	10	12
Financial officer	9	8	9	10	10
Trade association representative	5	5	3	9	8
Lobbyist	11	10	10	11	11
Consultant	6	6	6	5	6

For percentages, see Appendix Table 8

Table 5: Who Represents the Company in Europe? (by Rank)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	2	2	3	4	5
Manager or director of corporate unit	2	4	2	3	4
Plant or facilities manager	4	8	6	2	3
General counsel	5	7	7	7	7
Environmental affairs officer	1	1	1	1	1
Public affairs officer	4	5	5	4	2
Government relations officer	6	6	8	8	9
Tax specialist	7	11	9	8	9
Financial officer	8	12	10	9	8
Trade association representative	3	3	4	6	6
Lobbyist	6	9	9	8	8
Consultant	5	10	8	5	6

** For percentages, see Appendix Table 9*

Table 6: Who Represents the Company?
United States, Canada, Europe Combined (by Percent)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	31%	37%	30%	19%	28%
Manager or director of corporate unit	45	36	42	40	48
Plant or facilities manager	28	14	33	59	59
General counsel	37	36	33	26	21
Environmental affairs officer	62	54	59	58	62
Public affairs officer	15	18	20	26	49
Government relations officer	21	30	28	20	20
Tax specialist	11	9	9	4	1
Financial officer	10	8	7	3	5
Trade association	41	45	37	15	14
Lobbyist	14	23	22	12	8
Consultant	35	24	28	26	28

Table 7: Who Represents the Company? United States (by Percent)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	29%	39%	24%	15%	27%
Manager or director of corporate unit	49	40	45	42	52
Plant or facilities manager	31	18	40	65	65
General counsel	51	45	44	35	31
Environmental affairs officer	72	63	70	67	72
Public affairs officer	15	20	24	32	53
Government relations officer	26	41	39	27	26
Tax specialist	15	12	12	5	2
Financial officer	12	9	8	3	5
Trade association	53	58	45	17	16
Lobbyist	21	37	36	19	12
Consultant	48	33	36	31	33

Table 8: Who Represents the Company? Canada (by Percent)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	41%	43%	48%	33%	39%
Manager or director of corporate unit	48	39	50	45	53
Plant or facilities manager	35	11	32	57	59
General counsel	27	35	28	20	12
Environmental affairs officer	55	46	48	48	55
Public affairs officer	20	15	18	21	47
Government relations officer	22	21	19	17	21
Tax specialist	7	8	5	4	0
Financial officer	11	11	10	4	6
Trade association	33	33	34	15	15
Lobbyist	6	6	5	2	4
Consultant	27	21	26	25	30

Table 9: Who Represents the Company? Europe (by Percent)

Company Executive or Consultant	*regulatory agency representation*	*federal government hearing*	*state government hearing*	*local government hearing*	*public meeting*
Top management	24%	24%	18%	13%	18%
Manager or director of corporate unit	24	18	21	24	32
Plant or facilities manager	10	7	11	42	37
General counsel	8	8	8	8	7
Environmental affairs officer	42	36	39	47	40
Public affairs officer	10	13	13	13	39
Government relations officer	5	10	5	2	0
Tax specialist	3	2	3	2	0
Financial officer	2	0	0	0	2
Trade association	18	21	16	10	8
Lobbyist	5	5	3	2	2
Consultant	8	3	5	11	8

Table 10: Nature of Working Relationships with Outside Groups United States, Canada, Europe Combined (by Percent)

Outside Group	*productive*	*adversarial*	*education*	*proactive*	*reactive*
National/federal regulatory agencies	57%	12%	20%	45%	43%
Regional/state regulatory agencies	69	11	18	57	28
Local regulatory agencies	60	4	22	62	29
Environmental activists	17	22	28	27	65
Local community groups	38	4	40	61	32
The media	30	7	35	35	53
Other companies in the same industry	71	3	22	21	12
Other industries in the same region	59	2	22	59	35

Table 11: Nature of Working Relationships with Outside Groups United States (by Percent)

Outside Group	*productive*	*adversarial*	*education*	*proactive*	*reactive*
National/federal regulatory agencies	62%	20%	19%	40%	43%
Regional/state regulatory agencies	76	14	22	54	26
Local regulatory agencies	67	5	29	56	29
Environmental activists	18	29	33	21	66
Local community groups	44	4	48	60	29
The media	30	10	43	32	51
Other companies in the same industry	76	4	29	81	13
Other industries in the same region	66	2	30	63	29

Table 12: Nature of Working Relationships with Outside Groups Canada (by Percent)

Outside Group	*productive*	*adversarial*	*education*	*proactive*	*reactive*
National/federal regulatory agencies	52%	1%	21%	62%	36%
Regional/state regulatory agencies	65	7	14	68	30
Local regulatory agencies	47	1	15	71	29
Environmental activists	25	13	24	33	67
Local community groups	34	4	34	60	40
The media	34	6	25	31	64
Other companies in the same industry	67	1	16	88	13
Other industries in the same region	51	0	17	53	47

Table 13: Nature of Working Relationships with Outside Groups Europe (by Percent)

Outside Group	*productive*	*adversarial*	*education*	*proactive*	*reactive*
National/federal regulatory agencies	52%	3%	18%	31%	62%
Regional/state regulatory agencies	57	5	13	50	43
Local regulatory agencies	53	5	15	69	25
Environmental activists	5	15	21	42	58
Local community groups	26	3	26	68	32
The media	26	13	23	60	40
Other companies in the same industry	60	5	8	92	8
Other industries in the same region	52	5	6	56	38

Table 14: Company Involvement in Environmental Issues (by Percent)

Global Issues	*Aggregate*	*U.S.*	*Canada*	*Europe*
1. Erosion of the ozone layer by man-made chemicals	14%	13%	11%	25%
2. The greenhouse effect/global warming	15	18	13	10
3. Biotechnology and genetic engineering	7	6	6	13
4. Population growth and economic development	4	4	3	5
5. Population growth and the effect on biota and environment	1	1	1	0
6. Population growth relative to the effect of migration on agriculture, food and urban life	1	1	1	0
7. Loss of cropland and grazing land due to erosion, overgrazing, expansion of deserts, urbanization	1	1	2	0
8. Depletion of tropical rain forest, causing or contributing to timber loss, reduction in flora and fauna species diversity, watershed damage	1	1	0	2
9. Depletion of tropical rain forests, causing loss of carbon dioxide absorption capability and therefore contributing to global warming and climate change	2	4	0	2
10. Depletion of tropical rain forests for the purpose of using wood as fuel	1	1	0	2
11. Misallocation, pollution, overuse of fresh water supplies	13	14	13	12
12. Habitat loss in the marine environment; fisheries	6	5	12	2
13. Acid rain - the effects of air pollutants on fisheries, forests, crops	25	28	22	18
National, Regional, State and/or Local Issues				
14. Risk assessment and management regarding the communication of risk to the public	37%	39%	34%	33%
15. The effort to arrive at reasonable risk assessment via consensus of the concerned parties; dispute resolution	30	29	31	33
16. Clean water—threats from surface water contamination from farms and livestock operations	21	24	16	18
17. Clean water—threats from surface water contamination from urban and industrial run-off	43	47	40	35
18. Clean water—threats from ground water supplies threatened by pesticide use, leaking from waste dumps and leaking underground storage tanks	44	50	38	34
19. Management of water resources: quantity, quality, price	23	26	19	18
20. Clean air: toxic air pollution emitted from stationary sources	56	63	46	46
21. Clean air: toxic air pollution emitted from vehicular sources	13	14	82	4
22. Nuclear power production: planning long-term development	8	10	2	9
23. Nuclear power production: planning progressive phase-out	4	5	0	3
24. Concerned with reprocessing and the recycling of unused nuclear fuel	5	6	3	3
25. Concerned with nuclear waste disposal	9	12	3	5
26. Involved in the nuclear vs. fossil fuel debate	8	8	6	10
27. Hazardous and toxic chemical waste disposal	53	57	53	42
28. Toxic solid waste disposal—the problems associated with regulating hazardous materials and the cleanup of abandoned hazardous waste sites	51	57	46	38
29. Nontoxic waste disposal: concerned with the exploding volume of materials; problems with recycling, changes in packaging	41	43	41	35
30. Land use: disappearance and/or degradation of the landscape due to urban sprawl	5	4	7	3
31. Land use: loss of cultural and archaeological sites	7	7	11	3
32. Land use: changes in national or federal open space and wildlife policies	12	11	17	7
33. Land use: loss of important wetlands and related areas	15	18	12	9
34. Worker health and safety	66	65	70	63
35. Emergency management	54	53	63	44

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Permit No. 187

R4105 - 18.95 /91

The Conference Board

Report Number 962

Linking Work-Family Issues to the Bottom Line

This comprehensive research review answers these questions:

- *What is the impact of work-family problems on absenteeism, turnover, and employee stress?*
- *Who bears the brunt of work-family conflict—work or family? men or women?*
- *What are the productivity effects of on-site child care, maternity leave, flextime, and employee assistance programs?*

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Printed in the U.S.A.

ISBN No. 0-8237-0409-2

Linking Work-Family Issues to the Bottom Line

by Dana E. Friedman

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From the President

There are a growing number of U.S. corporations responding to the family needs of their workers. But before a company implements its work-family agenda, it often must justify the appropriateness of business attention to family issues and demonstrate a return on investment from new policies or programs.

For some, substantiating the bottom-line effects of family issues has been arduous. Until recently, little research in this area has been done. Few companies surveyed their employees to find out about their family problems, and even fewer evaluated the programs that had been implemented. Designing a reasonable study may be complex and costly. What research exists may be unpublished, or hidden in obscure social science journals and written in non-business language.

Early on, The Conference Board recognized the important role that work and family issues would have on the human resources agenda for the 1990s. In 1983, the Board created its Work and Family Center and organized a Work and Family Research Council to support research in this area. In 1988, with the support of AT&T Communications, Exxon Corporation, the Du Pont Company and IBM Corporation, the Board convened a group of business leaders and researchers from a variety of disciplines to review what existing research concluded, and what research still needed to be done.

This report presents the research summaries of the 1988 symposium and the findings from more than 80 other studies conducted in the past few years. It gathers in one place most of the information that a company would need to determine the appropriateness of creating a work-family agenda. It is intended as an introduction to research for the business leader and an introduction to business for the researchers who hope to shed further light on this subject in the years ahead.

PRESTON TOWNLEY
President and CEO

About the Author

Dana E. Friedman is co-president of the New York-based Families and Work Institute. She is a leading researcher, consultant and author on the subject of child care and corporate work and family programs. In 1983 she was a founder of The Conference Board's Work and Family Information Center and is the author of two other Conference Board studies: *Corporate Financial Assistance for Child Care* and *Family-Supportive Policies: The Corporate Decision-Making Process*.

Method

This report reflects the most comprehensive review of research that tries to link family issues to bottom-line business concerns. It includes findings from more than 40 studies at individual companies and an additional 40 studies on employees across a variety of work locations.

The framework for this report is derived from the information presented at a Conference Board Symposium on Workplace Research on the Family, held March 23-25, 1988, at The Arden House in Harriman, New York. Several experts were asked to review the literature and a panel of representatives from progressive companies were asked to respond. The purpose of the symposium was to bring together researchers and corporate executives who had been involved in recent studies exploring the work-family nexus. The meeting focused on the research process and research findings in an effort to build upon and improve the growing knowledge base on work-family issues.

Participants were asked to consider the following four questions as they reviewed the findings from their research:

1) What aspects of jobs are most predictive of work-family conflicts for employees and their families?

2) What aspects of family life are most predictive of work-family conflicts?

3) What are the different dynamics of work-family conflicts as they relate to gender and family status?

4) What are the different dynamics of work-family conflicts as they relate to age and occupational status?

Ellen Galinsky of the Families and Work Institute, Arthur Emlen, then of Portland State University, Fran Rodgers of Work/Family Directions, Inc., and Mary Beth Shinn of New York University, summarized the findings from all of the submitted research on the nature of work-family conflict. The effects of workplace programs were discussed by researchers who conducted literature searches on dependent care, alternative work schedules and counseling. Presenters included Dana Friedman, then of The Conference Board, Kathleen Christensen of City University of New York, and Sheila H. Akabas of Columbia University's Center for Social Policy and Practice in the Workplace.

Researchers and corporate executives who participated in the Arden House panel examining the research process included Bradley Googins and Diane Burden from the Boston University School of Social Work; Bruce Davidson, employee assistance manager for Digital Equipment Corporation; Karen Geiger, vice president, NCNB Corporation; Steve Wexler, manager of employee communications and research at Merck & Co.; Ben Wilkinson, director of human resources, Faith Wohl, director of workforce partnering from the Du Pont Company; Norman Costa, director of research for IBM; and John Fernandez representing AT&T Company and several other corporations where he conducted research as a consultant.

Subsequent to the symposium, additional researchers and companies were contacted to learn more about the outcome of their research efforts. Each contact lead to another company or study. Attendance at conferences, a thorough literature search and a review of bibliographies from published research reports were also used to find studies that might lend insight into the connection between family problems and company solutions on the bottom line.

During this time, the author got feedback and insight from The Conference Board's Work and Family Research Council. They helped to identify new research and interpret some of the findings presented in newly released studies. Other experts at the Families and Work Institute and Work/Family Directions, Inc. contributed to the dialogue about the conclusions that could be drawn from the findings.

There were no criteria for eliminating studies from this review. While the findings from poorly conducted research are not presented, their methodologies are discussed so as to help companies and researchers avoid some of the common pitfalls in conducting research of this nature. The presentation of findings does not always mention whether tests of significance were applied to the data since many companies seem satisfied with the knowledge that modest improvements in work performance ultimately yield a financial gain or the prevention of a financial drain.

The Conference Board is grateful to AT&T Communications, Exxon Corporation, the Du Pont Company and IBM Corporation for their support of the symposium and this report of the findings.

Executive Summary

There is evidence to suggest that work-family programs can improve a company's bottom line. Today's labor market developments and lagging productivity create the economic necessity that may result in corporate efforts to accommodate the family. It may be a labor shortage or a labor mismatch; it may even be layoffs that create the need to boost morale among those who stay. Whatever the reason, companies are evaluating their recruitment efforts, benefit plans, work schedules and productivity incentives—all designed for the more homogenous, male-breadwinning work force of the past.

What role does research play in demonstrating this bottom-line impact and motivating companies to respond to family needs? The conclusion of this report is that some research is necessary, but in most cases it is not sufficient by itself to justify an investment. Somewhere in the process of designing and implementing family-supportive policies, research will be needed to create a buy-in from key players within the organization. However, research can make the case to those who want to see the connection between the bottom line and family concerns, but it will be unconvincing to those who do not believe in this new role for business. In either case, the CEO or someone in top management must be an advocate for a more "family-friendly" workplace before change will occur. The role of research in decision making and program design is likely to increase as the body of relevant research grows. In generating work-family programs, research goes hand in hand with a commitment to the needs of a changing work force.

Thousands of companies have responded to the family needs of workers despite the limited body of research available. Some of the research examines the effects of family problems, or how much the company may be losing by not responding to the family needs of employees. Other research helps define the effects of family programs, that is, how much the company may gain by addressing employees' family needs. To date, far more research has examined how productivity is negatively affected by unmet family problems than on how it is positively affected by company efforts to solve the problem.

Part of the reason for this imbalance is that few companies have evaluated their new family-supportive initiatives. Virtually no studies compare different work-family initiatives and their effects on work behavior. Most current research provides information for employers on whether or not to take action at all, rather than on helping them select or implement effective policies and programs.

What seems clear from national trends as well as research is that recruitment and retention efforts can fall short as the result of family problems. Productivity can suffer and absenteeism and tardiness can increase when employees experience conflicts between their work and family responsibilities. The family may bear the greatest brunt of the imbalance, but work attendance and performance is affected as well.

Stress is on the rise, and much of it can be attributed to the increased burdens on single parents and two-earner couples who have jobs at home and at work. The research indicates that the stress produced by work-family conflict is due to daily hassles, and not necessarily catastrophes.

Pregnancy involves some periods of fatigue or sickness and absences due to delivery and convalescence. About 85 percent of new mothers return to work after their leaves, many of whom have difficulties finding reliable, affordable *child care*. The inadequacies of the child care market cause working parents to miss work or feel stressed about their children in someone else's care.

As with child care, *elder care* problems are largely the result of inadequacies in the social services available in the community. The complexity and duration of elder caregiving often increases stress levels, absenteeism and quit rates beyond those caused by child care.

Are there programs that will prevent these negative repercussions from occurring? With very few evaluations of company programs, a body of small, but consistent research suggests that child care centers, parental leave policies, flextime and employee assistance programs offer some payback to the company.

The research on the *employer-supported child care center* suggests that reduced turnover may be its most positive benefit. According to one national study, companies with a progressive *maternity leave policy* had working mothers who were more satisfied with their jobs, took fewer sick days, and were less likely to quit. *Flextime*, with a fair amount of flexibility, can reduce tardiness and absenteeism and improve morale. And research on *employee assistance plans* indicates the potential for a reduction in stress and health care costs.

Companies may not want to conduct research on work-family issues because of its cost and complexity. Resistance to research on employees' family problems may reflect a concern about employee reactions to issues of privacy, the sensitive nature of the questions that are posed, or to the expectation that the company should do more. A decision to proceed is made only when it is clear that the company is prepared to respond to the findings. The hesitancy to conduct evaluations of family-supportive policies and programs stems from the need for a costly, sophisticated research design that calls for pretests and post-tests over a long period of time.

Existing research offers a benchmark for assessing the findings from future studies. By comparing findings from different time periods, it is possible to see the evolution of employee expectations regarding employer attention to family concerns. Employees may have underestimated their work-family problems in early studies because workers were concerned about admitting, even anonymously, that they were absent for family reasons. Such admissions were thought to be risky in unsupportive climates.

As work environments change and employers become more savvy about work-family issues, employees, now safe in speaking up, may begin to exaggerate their problems in order to ensure a management response. Changes in employee expectations over time may yield a clearer picture of the problem, but not of the solution. As this report will show, more evaluations of work-family programs can help strengthen the effectiveness of company responses. If companies really want to know the costs and benefits of their family-supportive programs, they may not only need to become more family-friendly, but more research-friendly as well.

Introduction

Do corporate investments in the family needs of employees yield a return? Or are they nice things to do for employees that offer no financial payback?

There is evidence to suggest that work-family programs can improve a company's bottom line. Today's labor market developments and lagging productivity create the economic necessity that may result in a corporation's making workplace changes to accommodate the family. *Workforce 2000*, the report from the Hudson Institute commissioned by the U.S. Department of Labor, has had enormous impact on our understanding of the shifting size and composition of the available labor pool.[1] Whether it be labor shortages or a labor mismatch, companies are evaluating their recruitment efforts, benefit plans, work schedules and productivity incentives—all designed for the more homogenous, male-breadwinning work force of the past.

Obsolete workplace practices may account for increasing relocation refusals, apparent gender inequities, and unsuccessful minority hiring and career development. A study of family concerns may reveal these human resources problems, or family concerns may emerge as a business issue after an investigation of relocation problems or affirmative action complaints. In either situation, the need to address family concerns has been established and appropriate changes may follow.

While the impetus for a company response to family needs is primarily economic, what ultimately motivates a company to change? Amory Houghton, former chairman of the board of Corning Inc. and currently a New York Congressman, remarked at a 1981 work and family conference: "One percent of all companies want to be first and 99 percent want to be second." Today, at least 10 percent of large corporations provide some dependent care programs, and a growing number of small- and medium-sized companies are beginning to follow suit. Competitive momentum in the field has created some of the motivation for companies to respond as competitors—whether within an industry or within a community where they must draw from the same labor pool. The media attention that often follows a company initiative provides an additional incentive.

Some companies may feel pressures from unions that put family issues on the bargaining table. Others may react to threats of government-mandated benefits, such as the current debate about family and parental leave. With several federal bills pending and 13 states with mandated leaves, many employers have revised their leave policies so as to appear proactive, rather than reactive, in the face of government demands.

What role does research play in motivating companies to respond to family needs? The conclusion of this report is that some research is necessary, but not sufficient to justify an investment. Somewhere in the process of designing and implementing family-supportive policies, research will be needed to create a buy-in from key players within the organization. Accountants or shareholders may require more substantiated evidence that a family problem is causing a productivity loss or that a family-supportive response will create a productivity gain. But the CEO or someone in top management must be an advocate for a more "family-friendly" workplace before change will occur.

Research can make the case to those who want to see the connection between the bottom line and family concerns, but it will be unconvincing to those who do not believe in this new role for business. If a company believes that personal problems should be kept at home, management will be resistant to any data suggesting that employees bring their problems with them to the workplace, or that the company has a responsibility to help solve those problems as a matter of self-interest. In other words, seeing is not believing when assessing the capability of research to influence corporate behavior.

Thousands of companies have responded to the family needs of workers despite the limited body of research available. There are, however, several methods to assess the effects of family issues on the bottom line.

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[1] William B. Johnston and Arnold H. Packer, *Workforce 2000: Work and Workers for the 21st Century*, Hudson Institute, Indianapolis, Indiana, 1987.

(1) ***Individual company needs assessments***: A company considering policy changes or new programs may first want to develop a demographic profile of the employees, with feedback on how unmet family needs negatively affect work performance. Such surveys may ask employees how often they have been absent from work due to a child care problem, how frequently they have lost concentration on the job due to worries about elder care, or how many times they refused relocation or promotion opportunities due to family conflicts.

(2) ***Studies of employees across companies***: Surveys of employees working for a number of different firms, either on a national scope or within a particular community, can provide indications of family concerns that cause problems at work.

(3) ***Evaluations of individual company responses***: A study can be conducted to determine the effects that a family-supportive policy or program has on employee work patterns and performance in an effort to improve the program or justify its continuance.

(4) ***Studies of managers across companies***: Researchers can obtain feedback from managers regarding the potential for a family supportive program to yield a return on investment. Some studies include surveys of all employers in a particular state or community, whether or not they have any family programs in place. Others survey managers working in companies with family-supportive programs in order to assess their perceptions of the effects of those programs.

The first two types of research—employee surveys in one company or across companies—help define the effects of family *problems*, or how much the company may be losing by not responding to the family needs of employees. The second two types of research—evaluations of specific programs or surveys of managers' perceptions—help define the effects of family *programs*, that is, how much the company may gain by addressing employees' family needs.

This report divides the research according to these two types of outcomes. More than 80 research studies are incorporated into the analysis. To date, far more research has examined how productivity is negatively affected by unmet family problems than how it is positively affected by company efforts to solve the problem. For instance, studies show how often parents are absent due to sick children or the frequencies of work interruptions due to elder care responsibilities. But far less information exists on whether a sick child care center or an elder care referral service would mitigate the negative effects of these problems. In essence, much more is known about what companies *lose* by not responding than about what they might *save* if they did respond.

Part of the reason for this imbalance is that few companies have evaluated their new family-supportive initiatives. Such research is often complex and expensive; it requires pre- and post-testing and studies of comparison groups over a long period of time. It is also difficult to attribute cause-and-effect relationships to an initiative since companies often implement several policies at once. No one can be sure that changes are the result of a child care program or a flextime schedule when both were implemented within weeks of each other.

As the number of companies with family initiatives expands and the legitimacy of an investment is more widely perceived, companies become more interested in learning which options will yield the greatest return. At present, virtually no studies compare different work-family initiatives and their effects on work behavior. Most research provides information for employers on whether or not to take action at all, rather than helping them select or implement effective policies and programs.

Interest in evaluations may increase as companies with family initiatives try to learn more about the effectiveness of these programs. For instance, while child care studies typically examine employer-sponsored child care centers, the positive findings have often been used to substantiate an investment in other types of child care support. However, while evidence suggests that a child care center can improve morale, loyalty and productivity, and reduce absenteeism, turnover and tardiness, little is known about the magnitude of the effects or whether they apply to any other types of child care programs.

Scope of This Analysis

This report contains the most comprehensive analysis to date of research that attempts to link productivity and other work behaviors to work-family problems and programs. In most cases, references to these research studies are abbreviated in the text of this report. A full citation for each study can be found in the report.

Part 1 (pages 11-35) looks at the nature and manifestations of work-family problems, such as stress, pregnancy, child care and elder care. *Part 2* (pages 37-59) reviews effects of company responses to these problems, including parental leave policies, employee assistance programs, flextime arrangements, and on-site child care centers. The consequences of each are described in terms of company issues: recruitment, retention, absenteeism, tardiness and productivity.

While the research findings show the potential for a return on investment in family-supportive policies, these claims must be put in context. Common sense does not accept, nor does research show, that companies can solve all management problems with work-family initiatives. Dull and unpleasant jobs cannot be improved by the presence of a child care center at the worksite. Other work conditions and the company culture may have an overriding impact on work behavior and productivity. Determining what workplace environments help foster effective programmatic or policy responses to family needs is the next frontier for research in the work-family arena.

Part One: Work–Family Problems: How They Affect the Bottom Line

Where Work and Family Meet

Companies considering work-family responses want proof that they will save money. Evaluations of such programs, however, are scarce. Firms appear far more likely to conduct needs assessments that demonstrate the level and nature of unmet family problems. As Allen Bergerson, director of personnel policy development at Eastman Kodak, notes: "In 1987, when our work-family task force proposed implementation of our family-supportive policies, management asked what rate of return could be expected on the investment. I responded that the savings or return could not be substantiated, but that the problems we were attempting to solve were costing more than the proposed investment, and that we were more than confident that the return would exceed the costs of the programs. Nothing has occurred since to shake that confidence."

This section of the report examines how work-family problems affect the company in terms of recruitment, productivity, absenteeism, and turnover. It also explains the sources of work-family conflict and the specific impacts of work-family problems such as stress, pregnancy, child care and elder care.

Recruitment

Companies are competing for a shrinking number of workers, many of whom are female, foreign or elderly. The needs of these workers will have an impact on whether or not they enter the labor force and for whom they will work.

The majority of women currently available for work are in their childbearing years, and most will have children during their work careers. A survey conducted by the Bureau of the Census in 1982, however, found that 26 percent of women who were not employed would work if affordable child care were available; another 13 percent of mothers working part time said they would work more hours if they could find child care.[2]

Child care issues may hamper recruitment at senior levels. Only an estimated 30 percent of women in senior positions have children, compared to 95 percent of men in similar positions.[3] If the majority of women with children are excluded from consideration, companies cannot draw from a complete pool of talent for the highest levels of management. Felice Schwartz, president of Catalyst, an organization committed to women in management, observed at a 1988 Conference Board conference on women in the corporation: "Companies that are determined to recruit the same number of men as they used to for leadership will have to dig much deeper into the male pool....Even employers reluctant to hire women into upper management positions ranks will recognize that it is better to have high-performing women than moderately performing men."

Another recruiting problem involves minority groups, who will double their representation in the labor pool between now and the turn of the century. Although labor shortages normally produce openings for minority workers, *Workforce 2000* raised the issue of the concentration of minorities—a high proportion of whom are single mothers—in economically declining cities where job opportunities are not abundant. Scant research exists on the needs and expectations of minority workers, especially those in low-income families. Similarly, the family cultures of new immigrant populations and their workplace problems and needs are unknown.

Productivity

"Productivity" is a popular word that has come to mean more than the classic economic definition of "output over input." The limited research available on the subject suggests that family problems may cause worry at work, resulting in a loss of concentration and the inability of the employee to perform up to par.

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[2] U.S. Bureau of the Census, Current Population Reports Series, p. 23, No. 129, *Child Care Arrangements of Working Mothers*, June 1982, Washington, DC, U.S. Government Printing Office, 1983.

[3] *The Corporate Woman Officer*, Chicago, IL: Heidrick and Struggles, Inc., 1986; Korn/Ferry International's *Executive Profile: Corporate Leaders in the Eighties*, New York: Korn/FerryInternational, 1986.

Table 1: Relating Child Care to Productivity

Employees reporting that child care responsibililities affect productivity some, significantly, or a great deal.

	All Employees	*Men*	*Women*
Company A (high technology)	48%		
Company B (pharmaceutical)	43	38%	51%
Company C (law firm)	41	35	45
Company D (apparel manufacturer)	33		
Company E (home care products manufacturer)		48	59
Company F (pharmaceutical)		36	62
Company G (pharmaceutical)		29	49
Company H (financial services)		35	46

All studies conducted between 1985 and 1990.

One reason research is limited is that the human factors contributing to productivity are rarely assessed. Labor is generally seen as a cost of production, rather than as a critical factor in the productive outcome. Jerome Rosow of the Work in America Institute contends that this perspective fosters a negative attitude that may contribute to the prevailing distrust between management and employees. As a result, costs of benefits and other employee programs are not recognized for their return on investment.

Productivity studies show that the human factor contributes between 10 and 25 percent to productivity growth. Workers account for 50 percent or more of controllable costs; in labor-intensive services and government agencies, they account for 70 to 80 percent of all costs. Rosow warns: "Managers who ignore the human side of the enterprise do so at their own peril."[4]

Studies show that family concerns are often reported to reduce productivity and effectiveness at work. In eight company surveys, about half of the women and more than a third of the men contend that child care responsibilities affect work to some degree (Table 1). A study of 33 companies in Oregon, conducted by Arthur Emlen, found that a third of employees with adult dependents work less effectively due to worry about their elders. Thirty-eight percent of women caregivers and 22 percent of male caregivers report these effects. A survey of the Adolph Coors Company found more than one-third (36 percent) of employees reported a decline in productivity due to the child care problems of *co-workers.*

Turnover

High employee turnover is frequently considered an important cause of lagging productivity rates in the United States. Companies are also concerned with investments in training, the disruption and cost of replacement, and the scarcity of superior talent in the marketplace. Since companies will be competing for workers in what may well be a job seeker's market, the decision to stay with a particular employer may be influenced by the extent to which a company addresses family issues.

J. Douglas Phillips, a vice president at Merck & Co., Inc., which conducted an internal study on the costs of turnover, found that losing one exempt employee costs the company about 1.5 times the individual's annual salary. Non-exempt turnover costs are estimated to be about .75 times the annual salary of a given position.[5] In addition, the average adjustment period for a new employee is estimated to be more than a year (12.5 months). Although companies typically measure the visible components of turnover such as processing and relocation costs, Phillips asserts that less than half the costs of turnover are visible. The hidden costs, according to Phillips, include incoming employee inefficiency, inefficiency of co-workers, and inefficiency of the vacant position awaiting appointment.

Turnover costs become increasingly important as traditional retention strategies are eroded by diminished loyalty and job commitment. Employees are likely to stay with firms that offer good jobs, pay, working conditions, and benefits. It is generally held that lack of job satisfaction leads to voluntary employee turnover. However, data indicate that employee commitment affects turnover far more than job satisfaction. The employee may be dissatisfied with the job but still view the organization positively as a whole.

Among full-time workers, the Census Bureau reports that women are more likely than men to have had one or more work interruptions lasting six months or longer.[6] In 1984, 42 percent of full-time working women (compared to 12.1 percent of men) said they had at some time in their careers interrupted their work for a period of 6 months or longer. "Family reasons" were given as the cause of the break by more than a third of these women. According to the 1990 National Child Care Survey, about 25 percent of mothers left their previous jobs for family reasons. Child care problems caused 5 percent of mothers to leave their last job.[7]

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[4] Jerome M. Rosow (ed.), *Productivity: Prospects for Growth*, New York: D. Van Nostrand and Company, 1981, p. 128.

[5] J. Douglas Phillips, "Employee Turnover and the Bottom Line," Working Paper, 1989, p. 3.

[6] U.S. Bureau of the Census, "Male-Female Differences in Work Experience, Occupation and Earnings: 1984," Household Economic Studies Series, p. 70, no. 10, August 1987, p. 14, in Deborah Walker, *Mandatory Family Leave Legislation: The Hidden Costs*, Cato Institute, Policy Analysis No. 108, June 1988.

Employee turnover may be related to the birth or adoption of a child, or substantial care required for an aging relative. Studies report:

- An estimated 16 percent of new mothers do not return to their jobs after maternity leave.[8]
- An estimated 12 percent of employees quit their jobs due to significant elder care responsibilities.[9]
- Between 1985 and 1988, the proportion of women who considered terminating employment because of parental responsibilities increased by 50 percent. There was also a 50 percent increase in the number of parents who considered quitting work for an employer with more flexibility. The percent of men who considered quitting more than doubled during this two-year period.[10]

Absenteeism

Companies expect a certain amount of absenteeism and recognize that some absence is beneficial to the employee. Some research suggests that rigid efforts to ensure perfect attendance may lead to unintended and negative consequences, such as reduced product quality and increased accidents.[11] All medium- and large-sized companies offer paid time off that includes sick leave, personal days, vacation, or disability time, thus designating legitimate reasons for absence. According to a 1989 Conference Board study, absence for family reasons is allowed in about two-thirds of corporations.[12]

Showing up for work depends on one's ability and motivation to be present. These factors are affected by the availability of support from the family, the community, and the company. Research data suggest that job satisfaction and loyalty are related to absence, and that employer-provided family supports may increase job satisfaction. While the company may blame the family for the absence, the employer's lack of accommodation may be the underlying reason.

The average worker loses between seven and nine days a year; about half of absences may be due to family problems, according to a survey for *Fortune* magazine.[13] Family-related absences are influenced by the following factors:

- the presence, number and age of children
- marital status
- the sex of the employed parent
- form of child care used
- occupational level
- family income
- company policies.

According to Arthur Emlen of Portland State University, who has examined the family reasons for absence:

> "If the workforce misses about nine days per year, men who have no children miss 7.5 days. Add a half a day for being a father, one day for using out-of-home care or 5.5 days if the children look after themselves. This brings the total for men to 13.5 days. Women without children start at 9.5 days absent. Two days can be added if kids are in care outside the home or 3.5 days if they look after themselves. Add another three days if she is a single parent. If she is in management, she will miss a day or two less, but she will be late to work more often since her job will allow it. Having a family income of $30,000 or more saves women in management and professional positions nearly two days or a half day for women who are not in that position. The income difference saves men one day at either occupational level. Take off several days if the company's personnel policies severely clamp down on absenteeism, but add stress."[14]

Since family responsibilities change over the course of one's life, related absences will fluctuate for each employee. In an analysis of 23 data sets from 18 studies of absence, gender was found to explain less than 1 percent of the sum of all causes of work absences. (Job satisfaction explained 4 percent; true illness explained 33 percent.)[15]

Absence rates for men and women move in different directions over the course of their working years. For women, absence rates increase in their childbearing years (18-44), while for men, the rate falls. An article in the *Monthly Labor Review* concludes: "Marital responsibilities seem to induce men toward a firmer commitment to their jobs, so that they spend less time away from work. For most women, the proportion of time lost increases with the presence of young children."[16]

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[7] Sandra Hofferth, April Bayfield, Sharon Deich and Pamela Holcomb, *National Child Care Survey 1990*. Sponsored by NAEYC, ACYF, and Department of Health and Human Services. The Urban Institute, Washington, D.C.: 1991.

[8] James T. Bond, *Accommodating Pregnancy in the Workplace*. New York: National Council of Jewish Women, 1987.

[9] *A National Survey of Caregivers/Final Report*, by Opinion Research Corporation for the American Association of Retired Persons and The Travelers Foundation, Washington, D.C.: November, 1988.

[10] Company surveys conducted by Rodgers and Associates, 1985, 1988, Boston, Massachusetts.

[11] Richard M. Steers and Susan R. Rhodes, "Major Influences on Employee Attendance: A Process Model," *Journal of Applied Psychology*, 1978, Vol. 63, No. 4., pp. 391-407.

[12] Kathleen Christensen, *Flexible Staffing and Scheduling*, New York: The Conference Board, 1989, Research Bulletin 240.

[13] Ellen Galinsky and Diane Hughes, "The *Fortune* Magazine Child Care Study," New York: Bank Street College of Education, Unpublished paper, 1987.

[14] *Employee Profiles: 1987 Dependent Care Survey, Selected Companies*, Oregon: Regional Research Institute for Human Services, Portland State University, 1987. Arthur Emlen and Paul Koren, *Hard to Find and Difficult to Manage: The Effects of Child Care on the Workplace*, Oregon: Regional Research Institute for Human Services, Portland State University, 1984.

[15] Robert Haccoun, "Another Myth Goes 'Poof'," *Canadian Banker*, Vol. 95, No. 3, May-June, 1988, pp. 54-56.

The 1989 Current Population Survey reports that 11.5 percent of married women who had children under the age of six had absences.[17] But absenteeism due to illness or injury among married women with young children was only somewhat higher than for single women without children. It is the "miscellaneous excuse," probably due in large part to family concerns, that jumps to 7.5 percent for married women with at least one preschooler (compared to 2.2 percent for single, childless women). The miscellaneous category of absences for married men with children decreases as the number of children increases, quite possibly because their wives are less likely to be working.

The studies repeatedly confirm that absenteeism is related less to gender than to the worker's economic status and role in the family. For instance, Emlen found that in two-earner families, women missed 50 percent more days per year than men because they carry more of the daily responsibility for child care. Since women on average tend to earn less than men, having the woman stay home to cope with family emergencies is a rational economic decision.

Men rarely miss work due to child care. However, when they do, their absence is strongly associated with poor health and stress. This same association is not found among women.[18]

Emlen also found that companies with low rates of absenteeism have high percentages of employees who report stress related to child care. He speculates that the ability to take time off when needed can function as a safety valve.

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[16] Bruce W. Klein, "Missed Work and Lost Hours, May, 1985," *Monthly Labor Review*, November, 1986, p. 28.

[17] Op cit, p. 29.

[18] Marybeth Shinn, Blanca Ortiz-Torrez, Anne Morris, Patricia Simko, Nora W. Wong, "Child Care Patterns, Stress and Job Behaviors Among Working Parents," New York: Unpublished paper by researchers at New York University, 1987.

The Nature and Sources of Work-Family Conflict

Researchers have begun to define a concept they call "work-family conflict," as a measure of employee functioning. The presence of conflict suggests that the employee will work less efficiently in some way. There are both job and family sources and consequences of conflict (see box, page 16).

The larger concept, "work-family fit," is less understood. Researchers acknowledge that little is known about employees who have learned to manage the work-family balancing act and have developed strategies to avoid conflict. The focus on negative consequences may also overlook the ways in which work enhances family well-being, or how families positively affect work. The findings, instead, are used to demonstrate the costs of not responding to family problems.

The Nature of Conflict

The relationship between family and work is reciprocal. Both are changing and as they do, the relationship between the two creates even more change.

The change in work-family relationships will occur over the course of one's work career. Different problems will occur at different stages of life and at different levels of job responsibility.[19] For instance, for some people, work and family may remain independent of each other. For others, work "spills over" into family life; or happiness or discontent at home affect feelings at work. Still others use one sphere to compensate for what is missing in the other. The most common experience, however, is one of conflict. Of eight companies studied, five companies had about 50 percent of their employees reporting some work-family conflict. Exempt employees report a slightly higher amount of conflict than the non-exempt. Women report more conflict than men, and parents more conflict than non-parents (see Table 2).

Conflict occurs when the demands of one sphere make it hard to comply with the demands of the other. In the 1980 General Mills survey, 64 percent of respondents in the general population agreed that "people who expect to get ahead in their careers or jobs have to expect to spend less time with their families." The percentage was even higher among human resources officers.[20]

Whatever the nature of the relationship, the research clearly shows that the family is more likely to bear the

Table 2: The Extent of Work-Family Conflict

	All Employees
Company A (personal/home care products manufacturer)	53
Company B (law firm)	53
Company C (financial services)	50
Company D (apparel manufacturer)	45
Company E (22 hospitals)	43
Company F (pharmaceutical)	37
Company G (insurance)	37*
Company H (33 companies in Oregon)	23

*Among parents of children under six.
Note: All studies conducted between 1985 and 1990.

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[19] Paul Evans and Fernando Bartolome, "The Dynamics of Work-Family Relationship in Managerial Lives," London: *International Review of Applied Psychology*, Sage, Vol. 35, 1986, pp. 371-395.

[20] *Families and Work: Strengths and Strains*, Minneapolis: General Mills, 1980.

Sources of Work-Family Conflict

Jobs contribute to work-family conflict when the employee:

- works long hours;
- has a burdensome work schedule involving overtime, weekend work, travel demands, or shift work;
- has little control over the hours worked;
- has a job with little autonomy;
- is very absorbed in the job;
- has no job security;
- has changed jobs due to promotion, layoff or relocation;
- has a very physically or mentally demanding job;
- has a negative social climate at work;
- has unsupportive co-workers;
- has an insensitive supervisor;
- is in a company with inflexible work policies.

Families contribute to work-family conflict when the employee:

- has a disapproving spouse;
- has inequities in the marriage;
- has an unequal division of home labor;
- has children, especially preschoolers;
- has had unstable child care arrangements;
- has elder care responsibilities, especially for relatives living at a distance.

Source: General conclusions drawn from more than 80 studies of various work and family issues.

greater burden of work-family conflict. Evans and Bartolome found that nearly half of the male managers and a third of their wives described the work-family relationship as one of spillover, specifically negative spillover. In all cases, this spillover was in one direction: the emotions of work carried over into private life, and rarely vice versa. The researchers found that 45 percent of 532 managers studied were dissatisfied with this allocation of time and energy between their professional and private lives, and resented the disproportionate amount being spent at work.[21] In Emlen's research, 59 percent of employees rated family performance good or unusually good, while 86 percent gave a good rating to job performance. Emlen concludes: "The balance is not even and the job takes priority" (see Table 3).

It may be easier for some people to block out family problems at work than to ignore work pressures at home. Research suggests that men seem to pay more attention to areas of their lives where goals are clearly defined. As one employee said in a study, "I know exactly what to do to become the CEO. But who sets goals for the family and children?"[22] DeLong reports that many successful men are highly competent at directing and managing people in the workplace but find themselves inept at managing their personal lives.[23]

The need to keep work and family life separate was based on the belief that different emotional states are required in each sphere of life. Rosabeth Moss Kanter's "myth of separate worlds" is based on the presumption that the world of work functions on objective criteria while home life is exclusively value-laden and emotion-driven. The very standards of work and home life are presumed to be in conflict.[24]

Perhaps the principal form of work-family conflict concerns the overall amount of time that the individual spends tending to both work and family responsibilities, obviously a function of how much is spent in each role. The amount of time parents spend on work, household chores and child care amounts to almost two full-time jobs. Burden and Googins found that married mothers spend about 85 hours per week on these responsibilities, while married fathers spend 66 hours per week on home, work and children. Single mothers spend about 75 hours per week on these tasks[25] (see Chart 1).

Table 3: What Suffers Most: Work or Family?

Percent of employees reporting some interference between work and family responsibilities.

Study Assessing Locus of Work-Family Conflict	*Work Interferes With Family*		*Family Interferes With Work*	
	Men	*Women*	*Men*	*Women*
Fortune (1987)	32%	41%	16%	18%
Fernandez (1986)	22	43	13	39
Merck & Co. (1986)	37	41	18	21
Large chemical company (1986)	35	56		

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[21] Fernando Bartolome and Paul A. Lee Evans, "Professional Lives Versus Private Lives—Shifting Patterns of Managerial Commitment," *Organizational Dynamics*, Spring, 1979, p. 375.

[22] Gary Brice, "Work and Elder Care: The Dual Role of Employee Caregivers," Buffalo, New York: University at Buffalo, Center for the Study of Aging, 1987.

[23] Thomas J. DeLong and Camille Collett, "Managers as Fathers: Hope of the Homefront," Brigham Young University, 1987, Unpublished paper.

[24] Rosabeth M. Kanter, *Work and Family In the United States: A Critical Review and Agenda for Research and Policy*, New York: Russell Sage Foundation, 1977.

[25] Diane S. Burden and Bradley K. Googins, "Boston University's Balancing Job and Homelife Study," Boston, Massachusetts: Boston University School of Social Work, 1987.

Different factors affect the work-family relationship depending upon an employee's circumstances at work and at home. There are three conditions which seem to have a major influence on either moderating or aggravating work-family conflict. They include the worker's personality; the perceived importance of each role; and the sanctions or negative repercussions that would result if the role is not performed satisfactorily.

Personality. According to one study, people with Type A personalities may work longer hours and demand more of themselves, thus increasing the potential for conflict. Burke and Weir found that Type A personalities—typically competitive, aggressive, and driven—are at greater risk of bringing work stress home.[26] Evans and Bartolome found that it is not just the personality characteristics alone that matter, but the "person-environment" fit. If the person's skills and needs are not well matched to the job, the misfit could create stress that then affects the work-family dynamic. At its most dramatic level, these researchers identified the "prisoner-of-success syndrome," where work fits the personality so closely that professional activity is more stimulating than any other.

Role Importance. Several studies found that when work is very satisfying and important, individuals spend more time there and use their families as a "battery charger." In this case, work does not invade private life—it excludes it. Another researcher identified the "success spiral syndrome" where success at work reinforces work investment that leads to more success, thus creating more work involvement.

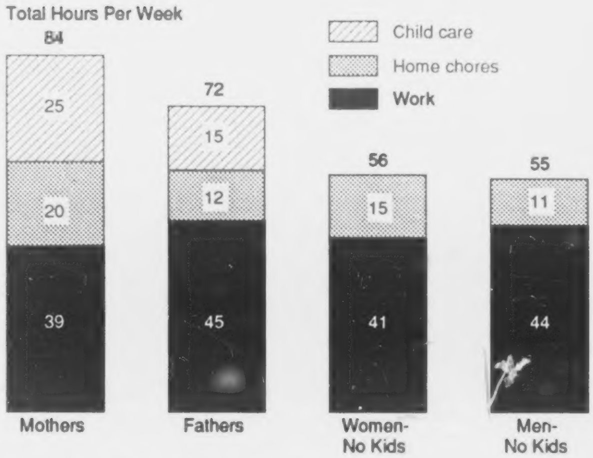
Sanctions. The perception or reality of supervisory disapproval or insensitivity can affect the level of work-family conflict. The fear of job demotion or dismissal could also increase conflict. Sanctions may come from the family as well. An employee commented in one study, "When my kids and spouse begin complaining loud enough, then I spend some time with them."[27] This complaining may be sufficient to increase work-family pressures, or to cause some compensatory action in the world of work.

Job Factors

Work-family conflict can be influenced by 12 different aspects of the job. These sources of conflict relate to time elements, job demands, and features of the work environment.

Chart 1

Hours Spent by Married Persons on Work and Family Tasks



Source: Burden, D., *Family Relations*, January 1986.

Time Elements

1. ***Number of work hours.*** The more one works, the more conflict one is likely to experience. When employees at Merck were asked what work condition most negatively affected their home life, 25 percent said work hours. The total number of hours worked was found to be the most significant predictor of family strain. The length of the work week can have a positive impact on family well-being until the hours exceed the family's expectations.[28] Galinsky distinguishes between excessive work hours, which are found to create the conflict for men, and inconvenient work hours, which are the source of conflict for women. One study reports that the amount of time husbands spend at work creates work-family conflict. The wife's work hours, however, do not seem to affect the husband.[29]

Commuting time may also increase the amount of time spent "working," and has been a factor in creating work-family conflict. For some it is relaxing time alone; for others it is exhausting. According to some studies, stress increases not from the long commute itself, but from the thought of being so far away from home and the children.

2. ***Schedule of hours.*** Some research indicates that the timing of job demands is critical and leads to work-family conflict. It is not the amount of time consumed by work, but rather modifications in the scheduling of work that creates conflict. Overtime, weekend work and travel demands are significantly associated with the

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[26] R.J. Burke and T. Wier, "Impact of Occupational Demands on Nonwork Experiences," *Group and Organizational Studies*, 6(4): 1981, pp. 472-485. See also Michael W. Yogman and T. Berry Brazelton, *In Support of Families*, Cambridge, Massachusetts: Harvard University Press, 1986.

[27] Brice, op cit., p. 3.

[28] Dennis Orthner, Paper prepared for Arden House Symposium, 1988.

[29] P. Keith and R. Schaeffer, "Role Strain and Depression in Two-Job Families," *Family Relations*, 1980, 29, pp. 483-488.

overall perception of conflict.[30] Rapoport reports that spending long periods of time working in other countries leads to work-family conflict in one international company. Shift work creates different kinds of problems; afternoon shifts are found to be harder on parenting; night shifts are harder on marriage.

Scheduling can result in problems if it is incompatible with the schedules of other family members or with the hours of needed community services. These scheduling problems have been determined to be more critical for women than men.

3. ***Control over hours.*** Having unpredictable hours can lead to work-family conflict. Rapoport observes that such patterns are more of a problem for employees at lower levels in the organization. In a study of university personnel, Herman and Gyllstron found more severe work-family tensions among professional staff than faculty. Although the faculty worked more hours, they had more control over their schedules.[31]

Job Demands

4. ***Job autonomy/control.*** The less control one has over tasks and responsibilities, the more likely one is to experience work-family conflict. This will affect workers at lower levels more, who have little freedom in determining how the job should be done. However, it may also be a problem for managers who have very controlling bosses.

5. ***Job involvement/absorption.*** Greater job involvement is associated with more satisfaction at work and with more conflict at home. Job demands may not only involve the commitment of workers, but may implicate family members as well. An example is the role of nonworking wives of senior executives. Two studies report that men in senior management are more absorbed in their work and less available to families. They have poorer relationships with their wives and children as a result. Other research shows that participatory management may increase stress because of the redistribution of responsibility, while workers who are involved, but unhappy in their jobs experience the most stress.[32]

6. ***Job security.*** Jobs in today's era of downsizing and restructuring are less secure. Research suggests that employees who put in greater effort and who are more confident about their employment security have less work-family conflict than other employees.[33] The research does not explain whether high-effort, job secure employees manage their family lives with less conflicts or whether employees from less-conflicted families are able to exert greater effort and feel more job secure.

7. ***Job change.*** A promotion can be a source of increased conflict until the worker feels comfortable in assuming new responsibilities. Demotions and layoffs are likely to have more negative consequences for the work-family relationship. And, according to Galinsky, relocation can be particularly stressful when the worker has no choice, the spouse is not supportive, the new community seems less desirable, or the merits of the transfer are questioned.

8. ***Physical and psychological demands.*** Greater physical or mental demands increase work-family conflict.

Work Environment

9. ***Job climate.*** A positive social climate can reduce work-family conflict. Galinsky's research has determined that health and safety features can reduce the worry that spouses and children have about the workplace.

10. ***Co-workers.*** The sensitivity of co-workers can affect the work-family relationship. Co-workers' willingness to cover for the employee who has a family problem will affect work-family conflicts in a practical sense. Emotionally, co-worker reactions to work departures for family reasons (maternity leaves, early leaving), can lead to work-family conflict.[34] Piotrkowski finds that conflict among co-workers due to these problems can lead to family problems for children up to one-and-a-half years after the tensions were first experienced.

11. ***Supervisors.*** Supervisors can be a source of support or conflict. Some managers permit alternative work patterns or time away from work. Others make employees choose between family and work. The more unsupportive the supervisor, the more conflict the employee (and the spouse) feels.

A 1990 survey conducted by the Families and Work Institute for *Working Mother* magazine found that the key factor in how a boss responds to work and family conflicts is the work status of the boss's spouse: supervisors who have employed spouses are almost twice as likely to be very accommodating of employees' family needs compared to supervisors in single-income marriages. Furthermore, mothers who work for flexible bosses are more than seven times less likely to want to quit, and nearly four times as likely to say they love their jobs than women who work for inflexible bosses.[35]

Supervisor competence is also a factor in the amount of spillover from work to home. In a 1983 study conducted by Bank Street College, employees in one company were asked to select a work condition that had the most negative effect on work life. The one cited most frequently was the supervisor-supervisee relationship.[36]

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[30] Diane Hughes, *Work and Family Life Studies: An Overview of Ongoing Research and Selected Findings*, New York: Bank Street College of Education, 1987.

[31] J.B. Hermann and K.K. Gyllstrom, "Working Men and Women: Inter and Intra-role Conflict," *Psychology of Women Quarterly*, 1977, 1, pp. 319-330.

[32] C.S. Piotrkowski, *Work and the Family System*, New York: MacMillan, 1979, p. 106.

[33] Karen N. Gaertner and Stanley D. Nollen, "The Effects of Internal Labor Markets on Employee Commitment to the Firm," *Proceedings from the 40th Annual Meeting*, Madison, New Jersey: Industrial Relationship Research Association, 1988.

[34] Mark Frankel, "The Dellcrest Families at Work Study," Toronto, Canada, 1988, Unpublished paper.

[35] Dana Friedman and Ellen Galinsky, "Who Makes the Best (and Worst) Boss?," *Working Mother*, July 1990, p. 56-60.

12. ***Policy supports.*** Both the presence of family-supportive policies and the expectation of support make a difference in the level of work-family conflict experienced by employees. Inflexible work policies are most predictive of work-family conflicts. One study found that company-sponsored events that exclude spouses can also be a source of work-family conflict.[37]

Family Factors

The composition, relationships, and structure of families, as well as the support services available to them, have an impact on work-family conflict as described in the following seven variables:

1. ***Marital relationship.*** Partners in dual-earner families make decisions concerning work and family life that affect each other. This theme of mutual interdependence, the sense that husbands and wives have goals that are both individual and mutual, is at the heart of the dual-earner family but is, thus far, barely understood.[38]

2. ***Spouse support.*** Research shows that when a spouse disapproves of the employee's job or performance of household tasks, the employee will experience more work-family conflict. Conflict is most likely to occur when the husband has traditional sex role expectations but the wife does not. Wives, whether employed or not, report more inequity at home than do husbands. Couple competence at domestic task management—or how well couples fight—also affects levels of conflict. Couples with poor relationships tend to have weaker adaptive skills, making them more vulnerable to work pressures and job stress.

3. ***Spouse employment.*** Dual-income families may find more work-family conflict if one partner disapproves of the other working, or if the nature of the job is so demanding that it causes problems for the family. The increased income can mitigate the negative effects of work or family demands.

4. ***Division of labor.*** Division of home labor is the most difficult area to negotiate. Women are less confident of the support they get from their husbands than vice versa. The more housework performed by the husband results in lower levels of depression in his spouse and greater marital satisfaction.[39] However, women who believe they are overburdened by an unfair share of labor at home may be more vulnerable to stressful conditions at work.

For married male employees, neither parenthood nor employment of the spouse appears to have any impact on the amount of time spent on home chores. Burden and Googins found that married men report spending about 12 hours per week on home chores, whether they are parents or not. Married fathers report that their wives (employed or not) spend two to four times more hours per week on home chores and child care than the men admit to. Dual-earner wives do somewhat less housework than homemakers, but dual-earner husbands are not picking up much of the slack. Instead, according to Crouter, dual-earner couples rely more on purchasing services, lowering their standards of household cleanliness and organization, and enlisting the assistance of children.

Other research documents that mothers of preschool children spend 72 minutes per day with their children, compared with 25 minutes for fathers. Mothers of school-age children spend 30 minutes and fathers 15 minutes per day with their adolescents.[40] In Kansas City, a survey of employees in 20 large companies found that 37 percent of employed mothers, and 45 percent of those separated from their spouses, had difficulty combining work and family.

When men feel that their wives are not doing their fair share of the household work, they may feel some stress and experience mild physiological symptoms, such as heart pounding or insomnia, but they do not generally report work-family conflict. The same does not hold for wives and mothers, where the perception that the husband is not doing his fair share leads to conflict. DeLong finds that men feel the greatest conflict when their wives expect them to spend more time with their children. Men with more egalitarian outlooks experience conflicts similar in nature and intensity to women.

Anecdotal reports indicate that men are increasing their share of family responsibilities. Companies report a slight increase in fathers taking paternity leave; and more fathers are asking for and gaining custody of their children after divorce. Pleck's research shows that the proportional (not absolute) time spent on home chores between men and women is narrowing as men do slightly more and women do slightly less.

Perceptions and expectations are critical. Spouses are more likely to be satisfied with their marriages if they perceive that their partners are doing more than their share—even if the actual time varies from minutes to hours.[41] Marriages may also be viewed positively when women retain responsibility for overseeing family work. As Galinsky notes, they are the gatekeepers of men's childrearing involvement.

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[36] Diane Hughes and Ellen Galinsky, *Balancing Work and Family Life: Research and Corporate Application*, New York: Bank Street College of Education, 1988, p. 9.

[37] Ann C. Crouter, "Rethinking the Dual Earner Family From a Life Course Perspective," Pennsylvania State University, 1986.

[38] Repetti, op cit.

[39] Joseph H. Pleck, *Working Wives, Working Husbands*, Newbury Park, California: Sage, 1985.

[40] S. Yoger and S. Brett, *Patterns of Work and Family Involvement Among Single and Dual Career Couples: Two Competing Analytical Approaches*, Washington, D.C.: Office of Naval Research, 1986.

[41] Diane Hughes and Ellen Galinsky, op cit, p. 2.

5. ***Family size.*** The larger the family (particularly those with a high number of children), the greater the potential for work-family conflict. Even though older children may help with younger siblings, the logistics and costs of three or more children lead to more conflicts between work and home.

6. ***Age of children.*** The presence of children under six will increase work-family conflict for mothers and fathers—but more for mothers. With adolescent children (12-18 years old), the level of work-family conflict equalizes. A study at Merck & Co. reports that 68 percent of mothers and 51 percent of fathers with children under six experienced high work-family conflict. When children were 12-18 years old, conflict was reported by 40 percent of men and 37 percent of women, although other studies find that women's levels of conflict remain higher than men's. It may be that fathers with teenagers feel more compelled to spend time with older children before the children leave the nest. DeLong finds that younger fathers (under 40 years of age) generally want more time with children.

7. ***Presence of adult dependents.*** At the Buffalo office of The Travelers Companies, 85 percent of caregivers said their caregiving responsibilities interfered with some aspect of their life. Seventeen percent had not had a break from caregiving in more than a year and 22 percent had not taken a vacation in two years.[42]

8. ***Support services.*** For both child care and elder care, problems with support services might relate to finding care, satisfaction with services, cost, stability and reliability of care and the number of arrangements needed. The arrangements for elder care are often complicated by the fact that a significant portion of caregivers have responsibility for aging relatives who live more than 50 or 100 miles away from them.

When child care is inflexible or unstable, parents may experience work-family conflicts. Emergency backup is central to a good work-family fit. Parents are most unhappy about the external aspects of child care: hours, cost, location. According to parents in one study, the most important criteria for selecting child care are health, safety, overall quality, and the attention the child receives.

Impact on Different Employee Groups: Does Sex or Money Matter?

The levels and nature of work-family conflict vary for men and women, and for workers within different income groups and job categories. One bias can be noted in the current body of work-family research: the principal focus of research concerning men has been on job factors, while family factors dominate investigations of conflict for women. Another shortcoming in the research is that blue-collar and low-income workers have been studied far less extensively than the more affluent (and autonomous) managers.

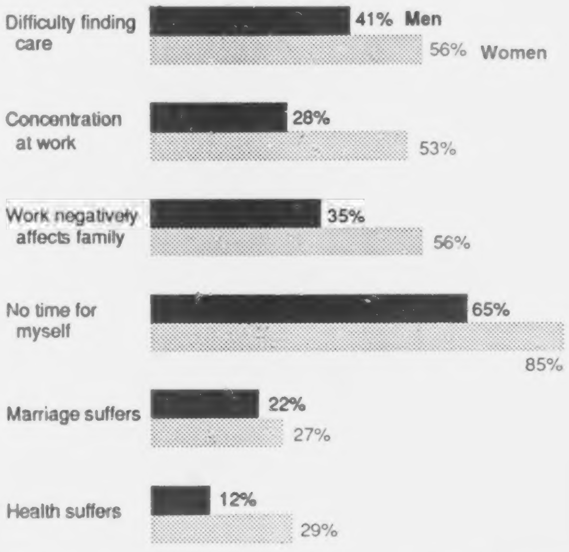
Effects on Men versus Women

Men and women experience work-family conflict differently. At a very basic level, work-family conflict occurs for a man when he loses his job and for a woman when she takes on a job. A man is typically seen as bringing more than one full-time person to the job, with the wife as an asset, while a woman is seen as less than one full-time worker, with the family a distraction. It is assumed that women will have a divided allegiance to work at best, and are much more likely to favor the family over work. Men, especially those with wives at home, are supposedly more committed to work.

In an overview of gender-related findings presented at the Arden House Symposium, Fran Rodgers, president of Work/Family Directions, Inc., reported that about a fourth of employees questioned, regardless of occupational status or gender, concede that their marriages suffer because of work-family tradeoffs. Men, when asked "Do you think having a family enhances your work performance?", were far more likely to say yes than women. Whatever positive effects there might be of family on work, it appears they are more likely to be present for men.

Women still assume primary responsibility for family life (see Chart 2 and Table 4). Yet the most

Chart 2
Work-Family Conflicts Reported by Women and Men



Source: Rodgers & Associates, Surveys Conducted in 1985 and 1988.

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[42] Gary D. Brice, David Carstense, and Marlen Kwiatkowski, "A Profile of the Travelers Insurance Company, Buffalo Office, Employee Caregivers to Older Adults," University of Buffalo School of Social Work, 1987.

Table 4: Work-Family Conflicts Described by Honeywell Employees

	Married No Children	*With Children Under 18*		*Dual Earner Couples Under 35 With Children*	
		Men	*Women*	*Men*	*Women*
Family Concerns Affect Work:					
Concentration and judgment affected *often*	21%	34%	40%	28%	53%
Work goals affected	28	44	52	60	68
Work Pressures Affect Family:					
Family relationships	24	39	43	35	56
Lack of time for family	18	35	53*	32	62
Combining Work and Family is *very difficult*	13	31	49*	25	56
Work/Family Affects Individual:					
Overwhelmed by family concerns	12	18	47*	9	53
Usually too tired, stressed from work, for family	18	24	44*	22	57
Family expects too much	15	18	50*	12	49
More stress this year	41	47	54	47	69
No time for self	40	59	86*	60	95
Specific Family Problems:					
No time for children	3	31	44	31	50
No time for spouse	19	33	54*	35	50
Child care		24	32	72**	65**
Sick child care		19	42	53**	65**
Financial problems	12	19	38*	12	44
Dual-earner problems	15	25	40	70**	63**

* Significant difference of 20 percent between men and women.

** Significant difference of 20 percent between all women and women under 35, and between all men and men under 35.

Source: *Work and Family Survey: Productivity Issues and Family Concerns*, October 1986, Honeywell.

important conclusion of research comparing men and women is that work-family conflict is not a gender issue. More accurately, it is related to family roles and responsibilities which are traditionally based on gender.[43] When men take on family responsibilities that women now perform, they suffer the same conflicts and consequences as women, personally and professionally. In a three-company study in New England, Burden and Googins found that gender was not relevant to the incidence of depression or reduced health and energy among employees. Work-family conflict and low salaries were greater determinants of this strain. While mothers in the study were more likely to have problems, men with work-family conflict and low pay reacted exactly the same as women—with reduced physical and emotional well-being.

Another study, by Etzion, concludes that success and self-fulfillment on the job do not preclude a man's success in private life, but for women, success at work may mean failure or dissatisfaction at home.[44] A 1987 *Business Week* survey of 50 top women in business who were compared to a group of equally successful men, reported that half of the women in these senior positions had never been married or were divorced. Half of those married had no children. About 95 percent of the men in comparable positions were married and had children.

In order to achieve equally at work, it appears that women must make significantly more sacrifices than men in their personal lives (see Chart 3, page 22). These views were outlined in a *Harvard Business Review* article by Felice Schwartz, who recommended that companies identify early in their careers women who are likely to have children, and then allow them to develop their careers slowly on what others have dubbed the "mommy track."[45]

According to Etzion: "Women who aspire to high-level careers do so within a societal context of expectations that has traditionally relegated their primary role to the family. They are not likely to receive the same level of social support for their decision. Women tend to have feelings of self-blame and guilt for compromising the traditional feminine role. Thus, the perception and consequences of any particular work-family combi-

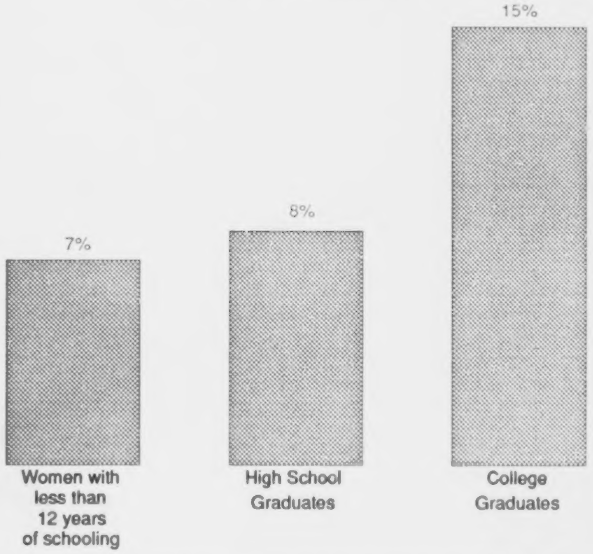
[43] Ann C. Crouter, "Spillover from Family to Work: The Neglected Side of the Work-Family Interface," *Human Relations*, Vol. 37, No. 6, 1984, p. 435.

[44] Dahlia Etzion, "The Experience of Burnout and Work/Non-work Success in Male and Female Engineers: A Matched Pair Comparison," *Human Resource Management*, Summer, 1988, Vol. 27, No. 2, pp. 166, 171.

[45] Felice N. Schwartz, "Management Women and the New Facts of Life", *Harvard Business Review*, January-February, 1989, pp. 65-76.

Chart 3

Women Age 30-34 Who Expect to Remain Childless



Source: U.S. Bureau of the Census. Current Population Reports, Series P-20, No 436. Fertility of American Women; June 1988. Issued May 1989.

nation are likely to be different for women than they are for men."

Women also seem to face a two-way bind. They are more likely than men to report that their jobs make it hard to accomplish personal and marital tasks and that family responsibilities interfere with work. For men, problems at work may spill over into the family, but not the reverse. Similarly, the source of work-family conflict for men is typically in the work arena, such as job demands and relationships with supervisors, according to Galinsky's research. For women, the problems tend to originate at home. Women experience conflict when their husbands have traditional values and do not approve of their working or complain about the amount of time they spend on housework. Men experience conflict when their wives complain about the amount of time they spend with the children.

Rodgers reminded the Arden House audience that the research on work and family issues is related to the research on the mental health of women because it is also strongly influenced by whether they are satisfied with their situation. She noted: "If a woman is home, but would rather be working, she is under a lot of stress. Similarly, if she works, but would prefer to be at home, she also experiences stress."

Rodgers urged caution in the comparisons made between men and women in the research: "When you compare all the men and women in the company, you are inevitably comparing a population of older men and younger women. If you do not control for age, you may think you are looking at a gender effect when what you really have is an interference of age and lifestyle differences." Male-female differences may also be a function of job level, since the sample of men is likely to be more weighted toward managerial and professional jobs. Rodgers concludes that: "The closer you get to comparing the men and women in full-time working families where two people experience similar pressures, the more they begin to look alike in their responses to work-family conflicts."

Though women have moved up the corporate ladder, their progress has been slow and contentious. The percentage of women in management and administrative jobs increased from 24 percent in 1976 to 37 percent in 1987.[46] A 1989 survey by Korn/Ferry International of all Fortune-1000 companies found that of the top five jobs below CEO at each firm, only 3 percent are held by women (up from 1 percent a decade ago).[47] The question is whether the differences in family responsibilities and resulting work-family conflict explain the gender differences in career paths. Rodgers comments: "If you ask women how far they are going to get in a company, or what prevents them from going further in their careers, family differences are not the major factor. It is the issues in the culture related to being a woman, such as the old boy networks, concepts of leadership, and use of power." Family factors then are only part of the reason why women are slow to move into senior management.

The Wick study, which triggered much debate, involved 60 women managers and professionals with 5 or more years of experience in a Fortune-500 company. Only one woman reported that she stayed with her original firm because it provided child care assistance. Furthermore, none said they left their company because of work and family conflicts. The authors conclude that "while corporations are attending to women's personal needs (such as child care and maternity leave), their professional needs are being ignored."[48]

Rodgers found these results to be incomplete. The Wick study sample included only 22 women with children. In the studies conducted by Rodgers and Associates, which represent the experiences of 30,000 employees, the authors conclude that family concerns may be a significant reason, but not the only reason why women leave. Fran Rodgers comments, "It is only part of the story to conclude that stalled careers cause women to leave their employers, when, in fact, careers are often stalled because of family responsibilities."

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[46] Janice Castro, "Get Set: Here They Come!", *Time Magazine*, Special Issue: The Road Ahead, Fall, 1990.

[47] Dana E. Friedman, Helen Axel, and Lisa M. Lasky, *Women in the Corporation: A Briefing Book*, New York: The Conference Board, 1988.

[48] Victoria Tashjian, "Women of the Corporation: Growing or Going?", Wilmington, Delaware: Wick and Company, 1989.

It is true, however, that women are more likely than men to refuse promotions, overtime, travel, and transfers—the experiences which are often necessary to move up in the organization (see Chart 4). (This may also be a factor of age or marital status.) Women, particularly those with young children, report that their family obligations limit their career opportunities.

Until very recently, a major tenet of the women's movement has been that equality should be pursued in the workplace without demands for special treatment. The companies responded and created a work environment that would allow women, if they acted like men, to advance as quickly as men. We now find that women are absent more than men, and they have twice as many hours of responsibilities for work and family. Rodgers concludes: "Companies believe they have created a level playing field where men and women can advance if they behave the same way. We now know that there is no level playing field because people come to it with entirely different sets of responsibilities."

Occupational Status and Income Groups

Beth Shinn, of New York University, presented a review of research at the Arden House symposium related to differences in income groups. She reported that the literature on life satisfaction suggests that more income is better. More income may also reduce stress. Whether money results in less work-family conflict or not, however, is not as clear. Shinn points out: "It is important to recognize the perception that higher status jobs will lead to more work interference with family time, and that it is an important reason for refusing that kind of work."

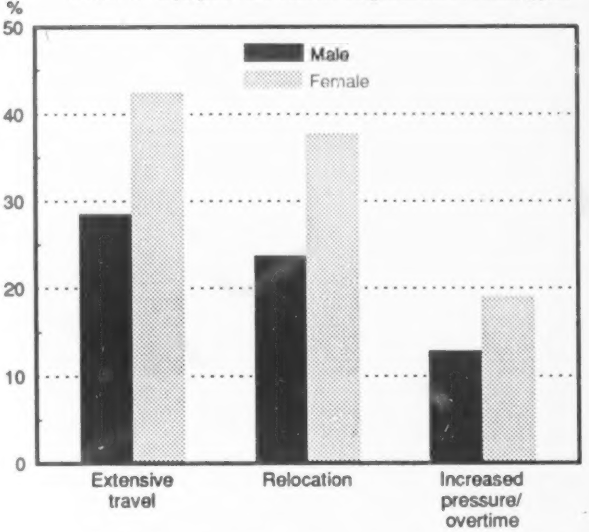
Frankel's research concludes that middle managers have the least work-family conflict because they can delegate work to subordinates and expect flexibility from their superiors. Senior managers, who have overwhelming and consuming work, and lower-level managers who have less control over their work hours and tasks, experience more conflict. Hughes' study concludes that first line supervisors have the highest conflict because of pressures from above and below.

Managers, at all levels, generally are more likely than non-managers to have the flexibility and resources to deal with work-family problems. On the other hand, managers work longer hours, have more pressures and responsibilities, and are more likely to take work home, travel, and be relocated. A study by The National Council of Jewish Women finds that women in professional and managerial jobs have the greatest difficulty combining work and family after childbirth. Professional women tend to place high value on their jobs, which are important to their self-esteem. But they are more likely to change their feelings about work once they become mothers, and feel more conflict about their dual roles.

Chart 4

Parents Turning Down Jobs

Percent of employees with children citing reasons for refusing jobs



Source: Rodgers and Associates. Surveys conducted in 1985 and 1988.

Orthner's research finds that stress is increasing fastest for upper income groups. Because of their investment in work, managers have more fragile support networks making it more difficult to balance work demands with family demands. Emlen finds that upper-income families are more likely to have children caring for themselves, usually of school-age, and this leads to a variety of work-family problems.

Employees in lower level jobs, on the other hand, have less control over work hours and may suffer more serious consequences for absences and tardiness. They are also less likely to have access to telephones or the freedom to make personal calls. These employees appear more likely to worry more about their children or elders at work because they may be unable to purchase adequate care.

Lower-income employees are more likely to quit their jobs to care for aging relatives. People with higher incomes tend to be care-managers rather than caregivers of the elderly—they arrange and pay for care rather than provide it.[49] One study compares women who quit their jobs to become full-time caregivers with women who remained on the job while assuming elder care responsibilities. The working women came from higher socioeconomic backgrounds, were better educated, had higher-level jobs, and viewed their work as a career rather than just a job.[50]

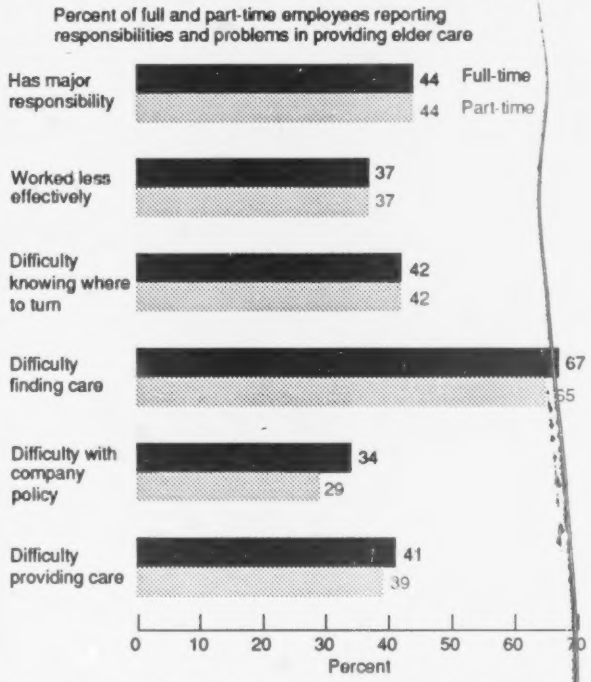
The importance of career varies at different stages of the life cycle. According to one study: "The occupa-

[49] American Association of Retired Persons, *A National Survey of Caregivers: Final Report*, Washington, D.C.: AARP, 1988.

[50] Elaine M. Brody, "Parent Care as a Normative Family Stress," *The Gerontologist*, Vol. 25, No. 1, 1985.

Chart 5

Women Employees Caring for Adult Dependents



Source: Arthur C. Emlen, Paul E. Koren, and Dianne Louise, 1987 Dependent Care Survey: Sister of Providence Final Report, Regional Research Institute, Portland State University.

tional orientation of men tends to relax somewhat during the late 30s and early 40s during which time they seek a greater balance between work and family." The focus groups conducted at Corning Inc. found that work-family needs and wants differ from decade to decade. The director of quality management at Corning Inc., concludes that women between the ages of 20 and 30 are primarily concerned with career advancement. Those between the ages of 30 and 40 focus more on children than career, while those aged 40 to 55 begin working on a career that may have plateaued.

Evans and Bartolome find that managers from ages 27 to 34 are most concerned with work and career. Between ages 35 and 42, family and leisure become more prominent. This is also the age when men are most likely to refuse to relocate. Over age 43, the balance between work and family is more stable. Some feel they missed out on their kids growing up. As Paul Sarbanes remarked when retiring early from Congress to be with his family: "No one was ever on their death bed saying they wished they had spent more time at the office." Other managers in this age group have plateaued in jobs that are stressful or routine. These managers are disengaged from the family as concern for work dominates because of the need to maintain job security until retirement.

It appears that as one moves up the hierarchy of an organization, the spillover from work to family increases. At lower job levels, however, the spillover may occur in the opposite direction, from family to work.

Full- and Part-Time Workers

The study at the 20 Sisters of Providence Hospitals in the Northwest is one of a few comparing large samples of full- and part-time workers. Almost a third of employees (29 percent) at the hospitals work part time. Although more women on average work part time than men, the difference in hours is even greater when the comparison is restricted to mothers and fathers.

Shorter work hours that allow more time at home reduce the cost of child care, but many child care programs do not accept children of part-timers. The Sisters of Providence study also found that child care stress is slightly greater for part-time mothers. For example, whereas mothers working full time can take a vacation day when their children are sick, the part-time mothers often do not have paid time off. Emlen concludes: "While part-time employment appears to diminish the financial burden of child care to some extent, it brings other problems which many employees find hard to solve."

Both part-time and full-time employees indicate similar levels of difficulty in finding and providing care, and a lessening of job effectiveness due to elder care responsibilities (see Chart 5). According to Emlen: "The pattern of similarities suggests that there is little point in differentiating full-time and part-time employees when addressing adult dependent care issues. While the differences found in the parallel child care analyses might reasonably be attributed to inflexibility in the child care market and other provider vicissitudes, the same factors do not appear to operate in the arena of adult dependent care. This is not to say that the difficulties encountered by employees in this area were minor; rather the main issues here are not as closely linked to the amount, variability, and scheduling of time on the job."

Specific Family Problems In the Workplace

As employees assume work and family responsibilities, specific areas of conflict are likely to emerge. The report now examines the impact of stress, pregnancy, child care, and elder care. While this review does not cover the entire work-family field, it focuses on issues that have been studied and areas in which workplace programs have been developed.

Stress

Stress is both a cause and a consequence of work-family conflict. While some stress is beneficial in stimulating productivity, it is also a growing health issue for business, leading to poor job performance, absenteeism, and a variety of health problems. The National Council on Compensation Insurance, which tracks activity in 32 states, contends that mental stress claims have increased fivefold in the past five years.[51] The American Medical Association estimates that 80 percent or more of medical problems are stress-related.[52] Numbers such as these lead some observers to put the toll of stress on society at $150 billion.

By examining the work-family components of stress, it is evident that problems often stem from the constancy and duration of strain rather than from the stress associated with a catastrophe or sudden change. While major events—such as having a baby, moving, and losing a promotion—are capable of creating stress, work-family concerns bring to human resources management a perspective on daily stresses and strains. Etzion warns of the danger of overlooking this more insidious form of stress: "It is claimed that continuous, hardly recognizable, and most denied misfits between personal characteristics and environmental demands are the source of a slow and hidden process of psychological erosion....The mini-stressors of misfits do not cause alarm and are rarely subjected to any coping efforts. Thus the process of erosion can go on for a long time without being detected."[53]

In a study of 86 upper middle-class working couples with children, Northwestern University researchers found different stress levels for men and women when faced with the prospect of restructuring their jobs to accommodate children. The women surveyed cut down on hours and travel and made more sacrifices than their husbands, but they seemed to take the changes in stride. The men made fewer changes, but had more difficulty managing the conflict.[54]

Research at 33 Oregon worksites found that between a third and two-thirds of employees reported some degree of stress, depending on the source and the responsibilities of the employee (see Table 5). For instance, employees caring for an aging relative experience more stress than parents with child care responsibilities. All populations report significantly higher stress levels related to their jobs than to caregiving or parenting.

In addition to jobs and caregiving, family finances were a source of stress for 39 percent of men and 54 percent of women in a University of Missouri study.

Table 5: Employees Reporting Stress Due to Work-Family Conflict

	All Employees	*All Men*	*All Women*
Sisters of Providence	54	NA	NA
33-company study:			
Due to child care	43	38	49
Due to elder care	52	42	63
Due to job	71	69	74

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[51] "Mental Stress Exacts a Rising Toll in the Workplace," *Wall Street Journal*, Labor Letter, January, 1989.

[52] "Stress on the Job," *Newsweek*, April 25, 1988, pp. 40-48.

[53] Dahlia Etzion, op cit.

[54] *Newsweek*, op cit.

Emlen finds that, generally, the higher the income, the lower the stress related to child care. The University of Missouri study also reports that employees with out-of-home child care appear to have more stressful lives than employees with other child-care arrangements. In the *Fortune* magazine study, child-care breakdowns were associated with stress-related problems.

Pregnancy

Pregnancy and childbirth can create problems for employees and their jobs. Prenatal care is expensive and may require time away from work for visits. Most pregnant women experience some periods of fatigue or sickness which affect their work performance. All must stop work, even if for a few days, for delivery and convalescence. The costs of childbirth and neonatal care are expensive. And the worry about finding suitable infant care or about returning to work sooner than they are ready can have a negative effect on work performance.[55]

A 1986 Catalyst study found that women typically return to work within six months.[56] Women at the top and bottom of the salary scale tend to take shorter leaves of six to eight weeks. Lower paid women cannot afford to take unpaid leave, and high-earning women worry about jeopardizing the positions they have achieved. Anecdotal evidence provided to the National Council of Jewish Women (NCJW) by one large corporation that offers two months of unpaid leave following the period of disability, suggests that few women take advantage of the leave because it is unpaid. Less than one-half of women request any family leave following disability leave, and only one in five takes the full two months offered.[57]

T. Berry Brazelton, an influential pediatrician at Harvard Medical School, believes that a minimum of four months is necessary before mother and child are able to establish a secure, loving relationship. A child without that firm attachment may remain insecure in relationships throughout life, Brazelton contends. A mother who leaves her child before feeling that intimate bond is likely to carry guilt and longing with her to the job. Brazelton believes that such mothers experience "detachment" that negatively affects their work. Brazelton stated at a 1986 Conference Board Symposium on parental leave: "This detachment not only endangers her relationship with her baby and her mate, but also her relationship with herself and her feelings of competence, security, and independence. We know this detachment has gone on for a long time with fathers. We are ending up with people in the work force unable to work at full capacity."

In a series of interviews that Catalyst conducted among executive-level mothers, one group of women felt they had been pressured to return to work sooner than they were physically or emotionally ready. As a result, they felt over-extended and unable to manage either work or family responsibilities. Another group of executive women who felt better about the leaves they had taken were more satisfied with their lives and productivity at work. This group of mothers had more suitable child care arrangements and more supportive husbands. Catalyst points out that the level and intensity of the woman's job and work environment play a critical role as well.[58]

Among the 2,600 women participating in the NCJW study, 52 percent found that pregnancy made it more difficult to do their jobs, and more than half changed their work schedules or job responsibilities while pregnant as follows:

- 53 percent did less strenuous work;
- 46 percent worked fewer hours;
- 24 percent traveled less;
- 11 percent changed shifts; and
- 10 percent worked at home.

The quit rate for new mothers is considerably lower than commonly expected. Many managers seem to believe, or at least fear, that the majority of women on leave will not return to work after their period of leave. In the NCJW study, of the 1,117 women who were no longer on leave, only 14 percent had quit instead of returning to work after taking leave. A very similar finding was made by the General Accounting Office when estimating the costs of implementing the proposed Family and Medical Leave Act.[59] In its survey of firms, more than 84 percent of women taking leave returned to work within 10 weeks. A Rand Corporation study of women interviewed in 1983 found that 82 percent returned to work within the first three months after giving birth. Based on these findings, one could assume that of the 2.2 million women workers who gave birth or adopted children in 1986, approximately 1.8 million resumed their employment following their leave.[60]

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[55] James T. Bond, *Accommodating Pregnancy in the Workplace*, New York: National Council on Jewish Women, November, 1987.

[56] *The Corporate Guide to Parental Leaves*, New York: Catalyst, 1986.

[57] Summary Statement of James T. Bond, Director, National Council of Jewish Women, Center for the Study of the Child, to U.S. House of Representatives, Subcommittee on Labor-Management Relations and on Labor Standards, March 5, 1987, p. 2.

[58] *Catalyst, Career and Family Center, Maternity and Parental Leaves of Absence*, New York: March, 1983, p. 7-8.

[59] U.S. Government Accounting Office, *Parental Leave: Estimated Costs of Human Resources 925, the Family and Medical Leave Act of 1987, Washington, D.C.: GAO/HRD 88-34, November, 1987, p. 13.*

[60] Arlene Leibowitz, Jacob Klerman, Linda Waite, Christina Witsberger, *Women's Employment During Pregnancy and Following Birth*, Palo Alto, California: The Rand Corporation, Prepared for presentation at Econometric Society, December, 1988.

According to the Rand study, the later a woman leaves her job during pregnancy, the more likely she is to return to work after delivery. "Among the women who quit work in the first trimester of pregnancy, 14 percent returned to work in the first quarter after the birth. Of women who left work in the second trimester, 16 percent had returned in the first quarter. But among women who worked 27-37 weeks into their pregnancies, fully 40 percent returned to jobs in their first quarter after the birth."[61]

Another study found that women with some college, and those with greater amounts of work experience, leave the labor force later in their pregnancy and reenter sooner than women with less education or experience.[62] It would appear from these findings that professional women are more attached to their jobs and less likely to let parenthood stop their career pursuits. Although no data are available on the later careers of women who choose to stop working after childbirth, anecdotal evidence from companies suggests that these women focus on the family for a period of time and then eventually return to the paid labor force.

The most important predictor of retention following childbirth is the availability of job-guaranteed maternity leave. Evidence of this is reviewed in Part Two.

Child Care

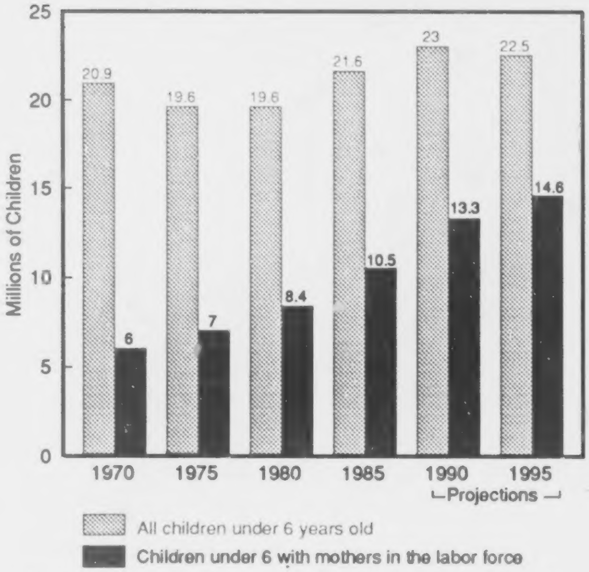
The limited supply and quality of affordable child care causes working parents to miss work or feel stressed about their children in someone else's care. According to government statistics, working parents constitute roughly 37 percent of the workforce. About 17 percent have preschoolers needing child care. This will increase in the next decade, since about three-fourths of working women are in their childbearing ages. According to the Bureau of Labor Statistics, most of these women will get pregnant during their working years and more than half will return to work before their child's first birthday.

While the preschool population is not expected to rise significantly during the 1990s, 40 percent more children will need care because their mothers are working. Sandra Hofferth of the Urban Institute predicts that by 1995 two-thirds of preschool children will have working mothers, up from about half today (see Chart 6).[63]

Of the 11.3 million children under age six whose mothers worked in 1985, almost half (48 percent) were in the care of relatives. Another 6 percent used in-home care, such as a nanny, au pair or housekeeper. The rest used out-of-home care by a nonrelative: 23 percent used a day care center or nursery school, and 22 percent relied on family day care, that is, a neighborhood woman caring for up to five children in her own home.[64] These rates indicate a decline in care by relatives and sitters in the home, small increases in family day care, and dramatic increases in center-based care (see Chart 7, page 28).

Chart 6

Preschool Children with Mothers in the Labor Force, 1970-1995



Source: Hofferth, S. "The Current Child Care Debate in Context," Bethesda, MD: National Institute of Child Health and Development, May, 1988.

In 1986, there were an estimated 63,000 child care centers, of which 40,000 were in operation. These centers had a capacity of approximately 2.1 million children. The number of centers has doubled over the past 10 years.

The number of family day care homes is more difficult to estimate because a sizable portion of them—somewhere between 50 and 90 percent—are unlicensed. In 1986, there were 165,000 licensed homes, of which 105,000 were in operation. These homes had a capacity to serve a half million children. Since 1977, licensed family day care homes increased by about one-third.[65]

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[61] Ibid.

[62] Steven D. McLaughline, "Differential Patterns of Female Labor-Force Participation Surrounding the First Born," *Journal of Marriage and the Family*, Vol. 44, 1982, pp. 407-420.

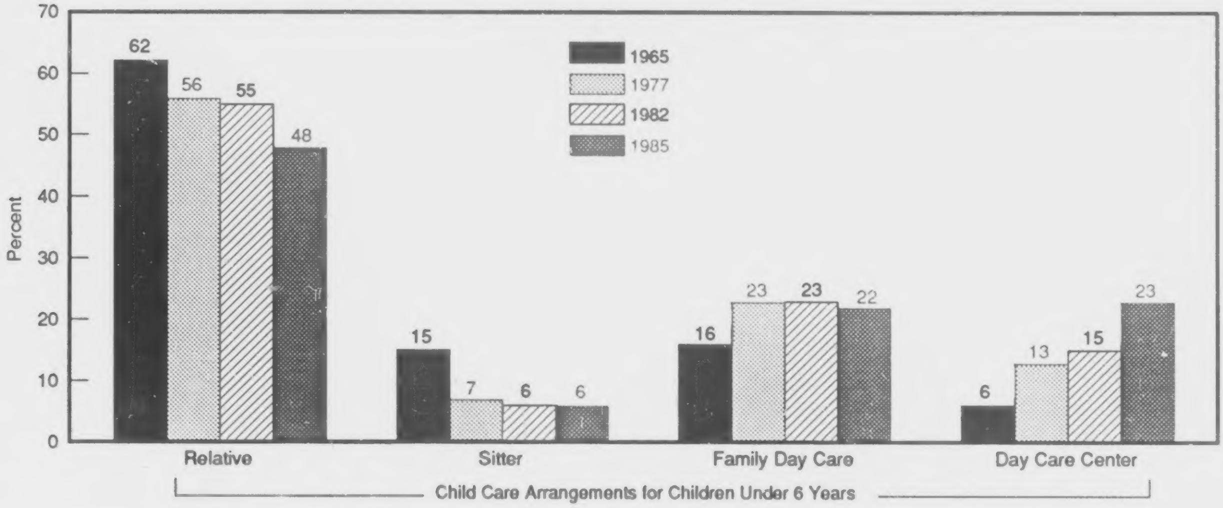
[63] Sandra L. Hofferth, "What is the Demand for and Supply of Child Care in U.S.?," Washington, D.C.: Urban Institute, Testimony presented before House Committee on Education and Labor, 1989.

[64] Sandra L. Hofferth, ibid.

[65] For estimates of child care supply, see Ellen Eliason Kisker, Rebecca Maynard, Anne Gordon, and Margaret Strain, *The Child Care Challenge: What Parents Need and What is Available in Three Metropolitan Areas?*, Princeton, New Jersey: Mathematical Policy Research, Inc., 1989, p. 5; William R. Prosser, *Day Care Centers: 1976-1984*, Social Services Policy Technical Analysis Paper, Washington, D.C.: U.S. Department of Health and Human Services, 1986; Patricia Divine-Hawkins, *Family Day Care in the United States: National Day Care Home Study Executive Summary*, DHHS Publication No. 80-30287, Washington, D.C.: U.S. Department of Health and Human Services; Sandra L. Hofferth and Deborah A. Phillips, "Child Care in the United States, 1970-1995," *Journal of Marriage and the Family*, 49, August 87, pp. 559-571.

Chart 7

Care of Preschool Children, 1965-1985



Source; Hofferth, Sandra L., "What is the Demand for and Supply of Child Care in the U.S.?" (Testimony before the House Committee on Education and Labor), February 9, 1989, The Urban Institute: Washington, D.C.

Hofferth estimates that with these 2.6 million licensed slots (in centers and family day care homes), about half of the 5.3 million children using out-of-home, nonrelative care are in unlicensed programs. She concludes that the shortage may, in fact, be a deficiency of *licensed* slots.

A child care shortage indicates that parents will have difficulty finding care, which may result in a search requiring time at work to make phone calls or time away from work to make visits. It may also result in a child care selection that is less than satisfactory or too expensive, adding either emotional or financial strain. These daily strains coupled with the emergencies created by sick children, sick providers, or child care breakdowns lead to employee absences—a point at which most child care problems meet the bottom line.

Absenteeism

Various child care problems may result in full-day or part-day absences. In the *Fortune* study, about 39 percent of parents had come to work late or left early, with 20 percent doing so three or more times in the past three months. Of those who missed part of the work day, 72 percent had been absent because of family obligations. A survey at Allstate Insurance Company found that almost half (49 percent) of parents had been late or left early at least 5 times during the 3 months prior to participating in the survey due to child care problems.

On average, employees arrive late or leave early due to family obligations about 1.8 days every 6 months. Women have twice as many latenesses or early departures as men (women average 2.4 days among 5 companies; the men average 1.2 days). Home care is associated with the least disruption at work. Out-of-home child care is associated with being late, leaving early, and missing days. According to Emlen and Koren, the greatest disruption results from children looking after themselves.

In a study at Adolph Coors Company, 77 parents reported missing 230 days in a 6-month period, or 460 days per year, due to child care problems: 146 days (63 percent) were absences due to sick children; 65 days (28 percent) to child care; and 19 days (8 percent) to breakdowns in child care (see Table 6).

Sick Children

Childhood illness is a major cause of unavoidable employee absence. Children under the age of 12 average 5 days of sickness per year. The 1990 National Child Care Survey found that about half (51 percent) of employed mothers who reported that their child was sick in the last month missed work to care for that child. Fifty-seven percent of the respondents to the *Fortune* study reported that finding care for a sick child was a serious problem. Fernandez observes that sick child care heads the list among 15 possible child care problems, especially for women who typically are the ones to stay home with a sick child.

Parents resort to a variety of strategies to take time off for sick children. At one large hospital, 36 percent

Table 6: Absenteeism and Child Care Problems

Percent of parents missing work and number of days absent due to child care problems.

	Percent who Missed Work	*Total Days Missed*	*Men*	*Women*
Company A (pharmaceutical)			.4	1.1
Company B (financial services)			.6	1.5
Company C (home products mfr.)			1.1	1.6
Company D (pharmaceutical)			.4	1.1
Coors:				
Due to sick children	63%	4.6[1]		
Looking for child care	28	6.2[2]		
Company E (high technology)		1.76		
Company F (computer)			1.0[3]	2.9[3]
Sick children			.5	1.7
Doctor's appointment			.3	.8
Child care problem			0	.1
33-company study		6.92	6.08	7.79
Sisters of Providence	31[4]			
Company G (insurance)	19[5]			

[1] Based on 53 employees; 55 Coors employees missed an average of 2.6 days per 6 months. Number equals total days missed over 6-month period.

[2] Based on 14 employees.

[3] Includes parents with children under 6.

[4] Percent absent at least once in previous month.

[5] Percent absent 4 days or more in previous 6 months.

of parents took a day off without pay, another 30 percent took a personal sick day, and 24 percent took vacation. At the 33-company study in Oregon, 50 percent of the parents took a vacation day. Among full-time workers, women were far more likely than men to take a day without pay to care for a sick child (24 percent compared to 4 percent of fathers). Men were more likely to take a personal sick day (24 percent compared to 13 percent of women).

Whether a parent stays home with a sick child depends on the nature of the illness, the availability of backup support, and the personal inclinations of the parents. In a study at Manville Corporation, among 17 percent of employees who had lost time from work due to sick children, two-thirds said they did not want their children home alone. Another fourth did not know a provider, and over a fifth could not afford one. It is clear that the value one places on certain family relationships and responsibilities will affect job motivation and, ultimately, the employee's choice between going to work or staying at home. The Coors study concluded: "Based on self-disclosed survey results, employees with children miss two to three days every 6 months due to sick children. If 47 percent of our Coors employees have children needing child care and 47 percent of these employees miss 2 to 3 days of work because of sick children, a metro-Denver employee population of 8,000 employees (including all Coors companies), means approximately 3,530 to 5,300 work days are missed every 6 months, or 7,060 to 10,600 days a year. At an average wage of $120/day, sick child absenteeism costs Coors $847,200 to $1,272,000 a year! Add the cost of replacement employees and reduced productivity, and sick child cost to the company is even higher."

Finding Child Care

Emlen found that employed mothers with children under age 12 who report difficulty finding child care are twice as likely as other mothers to make arrangements with which they are dissatisfied. They are also twice as likely to report worry or stress about child care, twice as likely to say that combining work and family responsibilities is difficult, and many times more likely to feel that child care is difficult to continue or maintain. These difficulties reach the workplace in the form of lost time and stress.

The match between local supply and local demand determines how difficult the child care search will be. Also, the type of care sought makes a difference. In one company survey, 79 percent of parents had problems finding care for their sick child, 60 percent reported a difficult search for infant care, 54 percent reported difficulty locating school-age care, and 39 percent said child care for their preschoolers was hard to find. Mothers typically report more difficulty finding care than

Table 7: Difficulty Finding Child Care

Percent of parents reporting difficulty finding child care.

	Total	*Fathers*	*Mothers*
Sister of Providence Hospitals	64%	NA	NA
3 New Jersey firms	54	NA	NA
Large Northeast pharmaceutical firm	50	42%	53%
33-company survey, Oregon	46	37	56
Large Midwest insurance company	36	NA	NA
Large East Coast computer company	30	NA	NA
New Jersey pharmaceutical firm	NA	56	71
Apparel manufacturer	67	NA	NA
Law firm	42	NA	NA

fathers (see Table 7). Studies also link higher absence rates to difficulties in finding child care.

Breakdowns in the System

Child care breakdowns are likely to occur when the care is of poor quality or when the arrangement relies on one caregiver (as in family day care or in-home care) who has been incapacitated. The number of arrangements that parents use to cover their work hours, the form of the care and the quality of the care all influence the reliability of the child care service. Parents often use several arrangements to cover their varying needs. Based on several corporate surveys, the average number of arrangements that parents make is consistently reported at about 1.7.

Of the 2,300 employed mothers studied in the National Child Care Survey, 15 percent reported some lost time from work, and 6 percent reported lost days from work during the past month because of child care breakdowns. These women were out of work an average of 1.58 times during the last month (where one time may represent several days missed from work). This figure may be inflated since interviews were held during the winter months when "snow days" are a problem for working parents.

The *Fortune* survey found that a third of the parents who experienced child care breakdowns were nervous or stressed often or very often, as compared to 17 percent of those who do not have trouble maintaining their child care arrangements.

The Affordability of Care

The inability to pay for quality care can result in problems at work. Emlen concluded in his 33-company study in Oregon: "Employees with child care affordability problems have less money and are frustrated in their expectations. They are willing to pay more for child care, but what they are looking for is harder to find, and they end up less satisfied with what they do find."

In national samples, child care expenses account for 10 percent of family income, or about 25 percent of the mother's wages (see Chart 8). Shinn reports that in actual dollars, two-paycheck families paid the most for child care, but after controlling for family income and other demographic factors, single mothers paid a larger share.

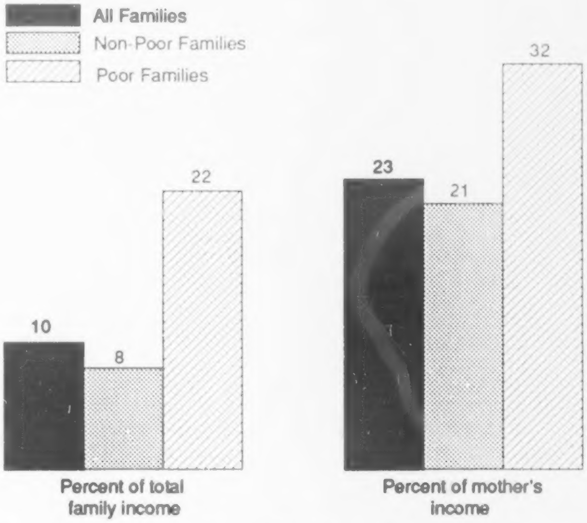
Affordability is a serious problem for lower-income families who pay as much as 25 percent of their family incomes on child care. Yet one study found that few parents would select alternative arrangements because of cost. In a 1988 national survey by *USA Today*, 50 percent of those wanting to change their arrangements mentioned reasons of quality, compared to 19 percent for convenience, and only 3 percent for cost. Hofferth draws the following conclusion: "Cost is not the biggest source of stress for parents; rather quality issues are very high on the list."

Elder Care

As with child care, the problems associated with elder care are largely the result of inadequacies in the social services available in the community. The complexity and duration of caregiving often increase stress

Chart 8

Average Weekly Expenditures on Child Care as a Percent of Income



Source: Hofferth, S. "The Current Child Care Debate in Contest," Bethesda, MD; National Institute of Child Health and Development, May, 1988.

Table 8: Prevalence of Elder Caregiving

	Percent of Employees with Some Responsibility
Company A (insurance)	12%
Company B (military contractor)	25
Company C (insurance)	20
Company D (insurance)	34
3-company study (Bridgeport, CT)	25
Company E (computer)	30
Company F (20 hospitals)	22*
	with Major Responsibility
Company G (law firm)	8%
Company H (pharmaceutical)	7
Company I (pharmaceutical)	5
Company J (financial planning)	6
Company K (pharmaceutical/ home care products)	8
Company L (apparel manufacturer)	8

*Range among 20 hospitals was 11-33 percent.

levels, absenteeism, and quit rates beyond those caused by child care.

Contrary to popular belief, children have not abandoned the elderly: Only five percent of the population over 65 are in nursing homes, and 75 percent of senior citizens live with or near their families. According to the National Council on the Aging, approximately 6.6 million dependent elders, who may or may not be disabled, are over age 65 and have some need for assistance from others. This number will reach 9 million by the end of the century. As the baby boomers become elderly, 19 million people will become dependent by the year 2040.[66] More employees will have dependent elders in the 21st century than dependent children. Employees may also have more parents (including in-laws) than children.

Between 10 and 34 percent of any given employee group has some responsibility for an aging relative. "Major" caregiving is provided by less than 8 percent of workers (see Table 8). Many employees who have elder care responsibilities care for more than one adult. In the national sample surveyed by the American Association of Retired Persons and Opinion Research Corporation (AARP-ORC), 25 percent of caregivers were responsible for more than one adult dependent. The Travelers Companies found that 19 percent of caregivers were providing care for more than one person. At the Sisters of Providence hospitals in the Northwest, one-third of employees reported caring for more than one adult.

The responsibilities that caregivers assume while working range from daily transportation to looking for a nursing home (see Table 9). Employees spend about 12 hours per week providing this care. At The Travelers—and at many other companies—women are more likely to be the primary caregivers, spending 16 hours per

Table 9: Types of Elder Care Responsibilities

Percent of employees reporting elder care support provided, by type.

	University of Bridgeport	*AARP*	*Travelers*	*33-company, Oregon*	*Caregivers of Frail Elderly*
Transportation	74%	79%	62%		
Arranging appointments	64		36	7%	
Providing meals	66	68			
Grocery shopping		82			86%
Visiting/phone	54		76	73	
Home maintenance	54	75	57		81
Personal care	30		15	32	67
Administering medicine		45			53
Managing finances		65	44	10	49
Filling out forms	62				
Searching for new residence	10				
Providing money	63		30		

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[66] Michael Creedon, (ed.) *Issues for an Aging America: Employees and Elder Care*, University of Bridgeport: Center for the Study of Aging, 1986.

Table 10: Hours of Elder Caregiving Provided

	Average Number of Hours per Week per Employee
AARP	10
Travelers	10.2
Travelers (Buffalo)	8.5
Pharmaceutical	15
Computer firm	16
Family Survival Project	35*

* Refers to brain-injured elders, and includes some caregivers who are not employed.

week performing these duties, whereas men reported an average of 5.3 hours (see Table 10).

Available Services

According to the National Council on the Aging, about 2,100 adult day care centers were in operation in 1989. Inadequate funding has slowed their growth. Few private medical insurance companies cover the cost of adult day care centers, which can run $12 to $50 a day. Medicaid is available to families for health-oriented facilities that meet state requirements, but only when the elderly person is in a formal institution and is poor. Medicare does not cover nursing-home care (except convalescent care in a skilled facility following a hospitalization), long-term care, private-duty nursing, or prescriptions needed after hospital treatments. Recent efforts to offer long-term care insurance to employees and their dependents often require prior hospitalization. Companies typically require employees to pay the full premium.[67]

Ongoing costs of providing elder care do not appear onerous, unless a long-term illness is involved. In the national AARP-ORC sample, full-time employees assume average monthly caregiving costs of $107. Previously employed caregivers and those who never worked pay more. Those with lower household incomes pay a higher percentage of their incomes on expenses related to caregiving. Fewer than 10 percent of the AARP-ORC respondents report hiring someone to provide respite care or in-home nursing support.

Respite care is an important dimension of elder care. Most company studies show that employees have been providing care for an average of five years. In the AARP-ORC survey, 28 percent had been unable to take a vacation in 2 years. At The Travelers, 18 percent of the caregivers had not had a vacation from caregiving for more than 2 years, and another 10 percent had not been away in the past year.

Having the relative live in another city or state from the employed caregiver is a frequent complication of caring for the elderly. In a 5-company study by AARP, 35 percent of caregivers had some responsibility for relatives living more than 100 miles away. At the Sisters of Providence hospitals, 22 percent of caregivers lived over 100 miles from their elderly relatives, and 27 percent of Travelers' caregivers had relatives living more than 50 miles away. As many employees using the nationwide elder care referral services sponsored by Work/Family Elder Directions are as likely to have relatives living close by as ones who are 100 or more miles away. Employees who must negotiate complicated arrangements from a distance are less able to respond immediately to emergencies. These employees report significantly higher stress and costs associated with purchasing care than employees whose relatives live nearby.

Caregiver Profile

The AARP-ORC study found that caregivers working full time are typically college-educated men from more affluent households. As a rule, they assume a secondary rather than a primary caregiving role because they are more likely to care for a "healthier" family member who is living independently. Nonworking caregivers, on the other hand, tend to have more demanding caregiving roles.

The effects of elder care on work performance depend, in part, on the severity of the elder's affliction. In the Family Survival Project study of 284 primary caregivers of brain-impaired relatives, half were employed and half were not. As in the AARP-ORC study, employed caregivers were younger and more affluent. They had paid help for 16 more hours per week, but spent 35 hours per week in their caregiving role. They also cared for relatives who were younger by nearly six years.

In The Travelers' survey, a major illness or injury most frequently precipitated the need for care of the elderly person. Hospitalization and death of a spouse were the next most common events leading to a caregiving role. Being laid off or fired from a job was the reason in 3 percent of the cases. About one-third of The Travelers' caregivers had problems with vision, swollen legs, hearing impairments, arthritis, depression, hypertension, and memory loss. Very few had serious diseases such as cancer, Parkinson's disease, stroke, or diabetes.

Little is known about what determines the dimensions of the employed caregiver's role. The cost of institutionalization, when compared with the salary of the caregiver, is undoubtedly a factor in the decision. The flexibility of the job, the value of the work, and the level of stress experienced by the individual employee are additional considerations. Without this information, the retention effects of certain elder care programs remain speculative.

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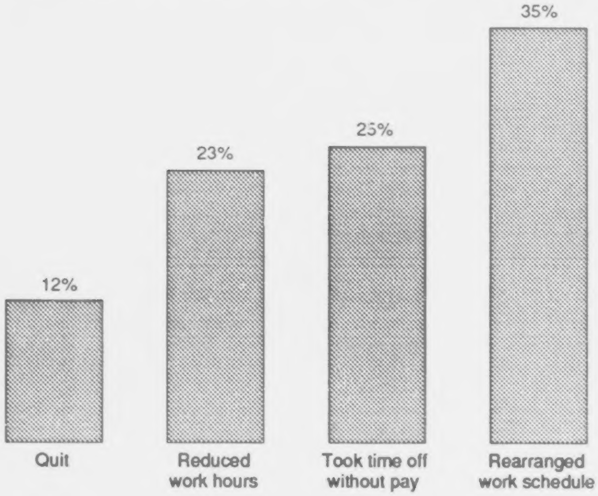
[67] Dana E. Friedman, "Elder Care: The Employee Benefit of the 1990's?" *Across the Board*, June 1986, pp. 45-51.

Chart 9

The Impact of Elder Care on Women Workers

Percent of all working women with elder care responsibilities who:



Source: Robyn Stone, Gail Lee Cafferata, and Judith Sangl, *Caregivers of the Frail Elderly: A National Profile,* National Centers for Health Services Research and Health Care Technology Assessment, Department of Health and Human Services, Washington, D.C., 1982.

Stress and Productivity

Effects on work performance are due primarily to the degree of stress associated with combining work and caregiving, the sensitivity of the supervisor, and the flexibility in work schedules. The adequacy of the support services available to the employee may be a factor as well. One survey found 55 percent of caregivers reporting difficulty in finding elder care services, while 67 percent of caregivers in another survey were frustrated in their search for elder care. More than one-third reported difficulty providing care or difficulty knowing where to turn for help. These problems lead to time at work on the phone which 64 percent of managers in the New York Business Group on Health (NYBGH) survey observed to be a problem. About 57 percent of the caregivers in the Buffalo study concurred.

On an average, 45 percent of caregivers report working less effectively due to worry about their elder care responsibilities. In a Wall Street law firm, 48 percent of caregivers felt their elder care responsibilities distracted them and negatively affected their productivity. The Buffalo office of The Travelers found that 28 percent of caregivers reported low morale due to caregiving.

Caregivers who quit their jobs to give care, and employees with less than half-time jobs, experience the highest levels of stress in the Family Survival Project survey. The study concludes: "These caregivers seem to have lost the respite from caregiving that outside employment can provide, and tend to be in onerous caregiving roles." Caregivers who work a 40-hour week also experience high levels of stress when economic limitations prohibit obtaining adequate paid caregiving help. In the NYBGH survey of 68 company managers, almost three-fifths reported observing an increase in stress due to elder care responsibilities among employees.[68]

A two-year study at the University of Michigan School of Nursing found that caregivers are three times more likely than the elderly relatives they care for to report symptoms of depression and four times more likely to report anger.[69] Studies at Duke University's Center on Aging found that 33 percent of persons caring for relatives with Alzheimer's disease use prescription drugs for depression, tension and sleep disorders. The comparable figure in the general population is 10 percent. Furthermore, 22 percent of the caregivers use alcohol daily to sleep or relax.[70]

The AARP-ORC study found that time spent on caregiving may create stress by leaving less time for leisure activities, as 51 percent reported. One-third spent less time with other family members (34 percent) or neglected their own health (33 percent).

Absenteeism and Availability for Work

Managers believe that employees reduce their work hours more than reported to care for an elderly relative. In two studies, fewer than 5 percent of caregivers admitted to reducing their hours. However, in the two studies of managers by Retirement Advisors and the New York Business Group on Health, 32 percent and 46 percent respectively, perceived employees to be cutting back on hours worked.[71]

The National Long Term Care study found that 29 percent of all caregivers (35 percent of women) had rearranged their schedules to accommodate elder care demands. Again, a discrepancy exits between employee and manager reports of schedule modifications. Between 9 and 19 percent of employees report taking unscheduled days off for caregiving. Yet, between 41 and 75 percent of managers thought that employees were taking off such time (see Chart 9 above and Table 11 on page 34).

In the AARP-ORC study, 33 percent of employees reported coming in late or leaving early due to elder care responsibilities. In the 33-company study in Oregon,

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[68] Leon J. Warshaw and staff, *Employer Support for Employee Caregivers*, New York: New York Business Group on Health, 1986.

[69] Friedman, op cit.

[70] Friedman, op cit.

[71] Warshaw, op cit; and *Elder Care in the Workplace: Corporate Employee and Retirement Implications*, Retirement Advisors, New York: 1986.

Table 11: Effects of Elder Care Responsibilities

	Caregivers									*Managers*	
	AARP-ORC [1]	*Oregon 33-company* [2]			*Sisters of Providence* [3]	*Elderlink* [4]	*Travelers* [5] *Buffalo*	*Caregivers of Frail Elderly* [6]	*Family Survival Project* [7]	*Retirement Advisors* [8]	*NYBGH* [9]
		All	*Men*	*Women*	*Women*	*Women*					
Reduced hours	4	3	2	4				21		32	46
Rearranged schedule								29			
Come in late/ leave early	33									45	73
Unscheduled days off	9							19		41	75
Delayed retirement										30	
Quit/considered quitting						23		9	22		
Work less effectively due to stress		31	22	38	37	34	30		58	57	60
Low morale										28	17
Excessive phone calls										57	64
Conflict between work and family		28				77	85				
Difficulty finding care		55	48	61	67						
Difficulty providing care		36	31	41	41						
Don't know where to go for help		41	39	44	42						

[1] American Association of Retired Persons (AARP), *A National Survey of Caregivers: Final Report*, Washington, D.C.: AARP, 1988.

[2] *Employee Profiles: 1987 Dependent Care Survey, Selected Companies*, Oregon: Regional Research Institute for Human Services, Portland State University, 1987.

[3] Arthur C. Emlen, Paul E. Koren, and Dianne Louise, *1987 Dependent Care Survey: Sisters of Providence, Final Report*, Oregon: Regional Research Institute for Human Services, Portland State University, 1987.

[4] G. Borison, *Elderlink: The Corporate Program at Somerville-Cambridge Elder Services: A Link Between the Community and the Private Sector. A Final Report.* Somerville, Massachusetts: Somerville-Cambridge Elder Services, 1985.

[5] Gary D. Brice, David Carstense, and Marlen Kwiatkowski, *A Profile of the Travelers Insurance Company, Buffalo Office, Employee Caregivers to Older Adults*, University of Buffalo School of Social Work, 1987.

[6] Robyn Stone, Gail Lee Caffetata, Judith Sangl, *Caregivers of the Frail Elderly, A National Profile*. Washington, D.C.: U.S. Department of Health and Human Services, 1986.

[7] Robert B. Enright and Lynn R. Friss, *Employed Caregivers of Brain-Impaired Adults: An Assessment of the Dual Roles*, San Francisco, California: Family Survival Project, 1986.

[8] *Elder Care in the Workplace: Corporate Employee and Retirement Implications*, Retirement Advisors, New York: 1986.

[9] Leon J. Warshaw and staff, *Employer Support for Employee Caregivers*, New York: New York Business Group on Health, 1986.

caregivers were late 14.4 times per year (19 times for women and 10 times for men). Managers generally perceived these absences to be more frequent.

Among 4 surveys of employed caregivers, the average number of days missed due to elder care concerns was 7.5 per year (see Table 12). About 43 percent of the managers in the Retirement Advisors study and 67 percent in the NYBGH survey had observed increased absences among employees due to elder care.

Turnover

Extensive elder care responsibilities may lead employees to quit their jobs. Among the caregivers interviewed in the AARP-ORC study who were formerly employed, 15 percent chose early retirement and 12 percent gave up work entirely as a result of caregiving. In the Long-Term Care survey, 29 percent had considered quitting, while 9 percent of all caregivers (12 percent of women) actually quit. The figure was 12 percent for daughters of aging parents. A study at the Philadelphia Geriatric Center found a 12-percent quit rate among elder caregivers. In the Elderlink study, about 23 percent of female caregivers at Wang Laboratories had considered quitting because of elder care demands, while 22 percent of full-time working women in the Sisters of Providence hospital network did leave their jobs to care for a family member.

Table 12: Absenteeism Due to Elder Care

Study	*Average Number of Days Absent per Employee*	*Percent of Employees Absent*
33-company, Oregon	7.63	24%
Family Survival Project 9.3 hrs. per month	14	55
Computer (5 times per year; 35 hours per year)	4	
High technology	2.2	
Computer	.3	
Travelers (Buffalo)	4.5	50
Retirement advisors (percent of managers observing increased absence)		43
New York Business Group on Health		67

Work and Family In a Benefits Context

In evaluating programs, important insights can be gained by examining management theories about the purpose of benefits and their perceived capacity to improve productivity and performance.

As employee benefits costs escalate, employers are increasingly questioning their value in the compensation package. According to the U.S. Chamber of Commerce, the average cost of benefits in 1987 reached $10,708 per employee, or 39 percent of payroll.[72] The Council on Employee Benefits predicted that percent could rise to 56 percent of payroll by the year 2000.[73]

Fringe benefits, particularly those that require employees to build up seniority in order to be eligible for them, are generally adopted to keep or attract labor—in other words, for the purpose of increasing productivity by reducing turnover costs. Some benefits specialists contend that morale and loyalty is improved by the voluntary provision of fringe benefits. Other experts disagree with this original intent of benefits or with the idea that such productivity enhancements through benefit provision are possible today. At a 1989 meeting of The Conference Board's Work and Family Research Council, Gary Pines, principal of TPF&C, a benefits consulting firm, commented that benefits provide short-term protection and long-term security. In his view, benefits do not tend to motivate employees to improve their productivity.

Motivators or Satisfiers?

Classic management theories suggest the presence of *motivators*, job characteristics that cause people to work harder, and *satisfiers*, which make the job more agreeable. While motivators appear more closely related to productivity, satisfiers are important for retention, but do not necessarily make people perform better.

According to the theories developed by Fredrick Herzberg in the 1950s—on whose work modern assumptions are based—motivators typically involve elements that are intrinsic to the job, such as "a good chance for advancement," "a great deal of responsibility," and "a say in important decisions." Satisfiers include good benefits and working conditions, and flexible hours.[74] Herzberg assumed that these latter conditions are important to workers, but will not motivate them to be more productive. Yet Herzberg found that benefits had the ability to make people feel dissatisfied and perform poorly. Inadequate satisfiers can reduce productivity; but even at an optimum level, they cannot increase productivity. He concludes: "The opposite of job satisfaction is not dissatisfaction and similarly, the opposite of job dissatisfaction is not satisfaction, but no job dissatisfaction."

In a 1987 survey of 183 employees in a Midwest health facility, 82 percent of the respondents viewed fringe benefits as important, and 65 percent said that benefits influenced their decision to stay with the organization. Only 18 percent believed that the benefits helped recruit them to the organization. The study also found, to the surprise of the authors, that benefits were perceived as a strong motivating influence on employees.[75] Retention, however, was thought to be most affected, confirming Herzberg's theory that satisfiers help keep people, but casting doubt on the assumption that they are not capable of motivating them.

According to Herzberg's theory, company provision of family-supportive benefits will maintain, but not increase, productivity by preventing productivity loss. This theory, though plausible, is untested among today's workers—baby boomers with different values from those of prior generations, and more women, whose needs and expectations differ as well. For instance, the employer-employee contract is less viable; employees are more committed to their careers than to a particular firm; people want more leisure time and seem willing to make sacrifices to achieve a better quality of life. These and other profound changes in the value orientation of today's workers justify skepticism for theories developed about yesterday's workers.

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[72] *Pension Reporter*, (December 19, 1988), Washington, D.C.: Bureau of National Affairs, p. 2167.

[73] Fred K. Foulkes, (Ed.), *Employee Benefits Handbook*, Boston: Warren Gorham and Lamont, 1987, p. 6.

[74] Fredrick Herzberg, "One More Time: How do you Motivate Employees," *Harvard Business Review*, January-February, 1968, pp. 53-62.

[75] Thomas J. Bergmann and Marilyn A. Bergmann, "How Important are Fringe Benefits to Employees?," *Personnel*, December, 1987, pp. 59-64.

New Values

In tracing the nation's collective psyche over the past 30 years, Florence Skelly, a recognized pollster formerly associated with Daniel Yankelovich, describes the 1950s as a period of upward mobility, puritan tradition and self-denial—denial of the individual in favor of conformity and denial of current desires for the future. The 1960s brought in the era of self-fulfillment and self-discovery. Economic realism, a revived commitment to the free enterprise system, a shift from government to business as an agent of social change, more interest in the future as the baby boomers grew older, and respect for pluralism, all characterize the decade of the 1980s. Skelly predicts: "If this notion of commitment to increased profits starts to become a predominant force, if the erosion of the egalitarian spirit continues, and if there is more fear in the contract employers make with their workers, I think the definition of benefits will be less clear. Rather, benefits will increasingly be used as incentives for performance. This is a very different kind of use than we have traditionally seen."[76]

These psychological changes have important implications for the eventual provision of family-supportive benefits and employee responses to those benefits. For instance, if employers can recognize and accept diversity within the employee population, companies are then free to acknowledge the different needs among workers and respond accordingly. The company culture, managers, and employees are learning that equity has a new meaning.

Benefits were primarily intended to support catastrophic events, rather than the day-to-day drudgeries of life. Corporations have been generous in their efforts to protect employees from future and immediate disaster. But they are slow to understand the value of benefits in reducing daily tensions and ongoing personal problems.

Employee Expectations

The ability for employee benefits to yield a return depends on whether the program or policy is well designed and implemented and has adequate financial backing; whether it has been properly communicated so that employees know how to use it; and whether there is a commitment to the program throughout management ranks. For instance, an on-site day care center that one supervisor thinks is a waste of money may not yield the maximum return on investment for the employees reporting to that supervisor. Paternity leaves with perceived negative sanctions will never be taken.

Perhaps the most important factor in the effectiveness of company-provided benefits is whether they are expected, desired or needed by employees. Given the demographic changes and the work-family conflicts outlined earlier, some justification has been presented for company support. And based on several national polls that document rising expectations, employers are under pressure to respond to employees' child care needs (see Table 13). More companies are becoming concerned about employee dissatisfaction if these expectations are not met.

The New Demand

Since work-family issues first surfaced about a decade ago, employees have remained reluctant to express their family-related concerns at work. But increased corporate support to families, media coverage on the issue, and the labor shortage that makes it an employees' market, have encouraged employees to begin to speak up. Sensing this growing expectation and the desire to better understand the needs of today's workers, companies are adding questions to attitude surveys and environmental scans in order to find out what employees want. Focus groups and specialized needs assessments are conducted to gather more information about the needs of employees and their families.

In a review of eight company needs assessments where employees were asked to rank the company programs that would be most beneficial to them, the responses show an overwhelming preference for increased flexibility in work hours. Employees in six of the eight firms cited flexible work arrangements as a top priority. A revision of sick time policy was the second most frequently requested change, mentioned by five of the employee groups, twice as a top priority. Employees were specifically interested in being allowed to take time off for a sick family member. At one firm, flexible work hours were considered the most important option by the entire employee population. But when the question was asked only of working parents, revisions in sick leave prevailed.

The on- or near-site child care center was the third preference, followed by training supervisors to become more sensitive to family issues and half-day vacations. It is interesting to note that child care centers, despite extensive publicity about this very tangible benefit (and

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[76] *America in Transition: Implications for Employee Benefits*, Employee Benefits Research Institute, Washington, D.C., 1982, p. 75.

Table 13: Expectations of Employer Support for Child Care (Based on Public Opinion Polls)

The Star-Ledger/Eagleton Poll
January 29 - February 8, 1988
800 adults, New Jersey sample

"Some people feel that employers should help provide child care for their employees because they benefit from having working parents in the labor force. Others think the responsibility for child care is the parents' alone. Do you think employers should or should not help provide child care?"

Employers should provide	67%
Should not	26
Depends/Don't know	7

Fortune Magazine
June, 1987

"Would you like companies to provide a subsidized child care center?"

	Men	*Women*
Yes	38%	54%
No	62	46

Fingerhut/Granados/Service Employees
International Union
May, 1987
724 registered voters, national sample

"I think employers should bear at least some of the cost of child care programs."

Agree a lot	35%
Agree a little	25
Disagree a little	14
Disagree a lot	23
Don't know	4

"Working parents are more productive at work when they know their children have good child care arrangements."

Agree a lot	85%
Agree a little	11
Disagree a little	-
Disagree a lot	-
Don't know	2

Yankelovich Clancy Shulman/*Time* Magazine
September, 1986
1,014 adults, national sample

"Do you think it should be a policy of business to provide day care facilities for the children of employees?"

	Total	*Men*	*Women*
Yes	51%	46%	56%
No	39	46	34
Depends	7		
Not sure	3		

Roper Organization
October - November, 1985
1,998 adults, national sample

"Tell me whether it should be the responsibility of business to provide or pay part of the cost of day care for child care of employees who are mothers."

Definite responsibility	9%
Highly desirable	24
Nice but not expected	40
Beyond what they should do	25
Don't know	

employee visions of free, high quality child care), were not ranked highest. The preference instead was for flexible hours and sick leave, which are considered to be relatively low-cost benefits. One explanation from The Conference Board's Work and Family Research Council is that flexibility may be harder to create in some corporate environments than building a child care center.

Specific Work-Family Programs

Research on specific work-family programs and their ability to reduce the negative effects of work-family conflict is limited. Sufficient research exists, however, on child care programs, flextime, employee assistance plans, and parental leave policies to gauge some of their impact. How effective one initiative is over another in addressing specific problems, or what cumulative effect might occur when several initiatives are provided simultaneously is not known, due largely to the lack of research evaluating initiatives implemented by various employers.

Employer-Sponsored Child Care Centers

Of all the ways for companies to address the needs of working parents, the on- or near-site child care center has received the most attention. A center involves a significant commitment of funds and resources. It is the most tangible option—easiest for nonparent decision makers to grasp; easiest for newspapers to photograph; but apparently not easy to study. Very few studies evaluate employer-sponsored centers, and none compares company-owned centers to those contracted out. Very few analyses are pure in their methods and realistic in their conclusions. The strong consistency of the findings, however, lends weight to their credibility. Based on the most relevant data available, a child care center sponsored by an employer can affect the bottom line—not as much as expected, and not in the ways managers predict—but with a certain payback. Research suggests that reduced turnover and improved recruitment may be the most positive benefits of work-site child care centers.

Of the 16 studies[77] reviewed (see box on page 41), six are experimental in nature, comparing the center users with a "control group" of employees who did not use the center. Control groups include users of other child care services, nonparents, or employees of a similar company without a child care center. The matching of samples is important to make sure that other differences between groups—besides the use of the center—are responsible for the variation in outcomes. In some cases, these groups were surveyed up to a year before the center opened and

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[77] D.N. Krug, V.E. Palmour, and M.C. Ballassai (1972), *Office of Economic Opportunity Child Development Center*, Westat, Inc., Rockville, Maryland.

G.T. Milkovich and L.R. Gomez, "Day Care and Selected Work Behaviors." *Academy of Management Journal*, 1976 (1) pp. 111-115.

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Sandra L. Burud, Pamela R. Aschbacher, Jacquelyn McCroskey (1984a), *Employer-Supported Child Care: Investing in Human Resources*, Auburn House Publishing Company: Boston, MA.

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Florida Department of Administration (1987), *Florida Child Care Pilot Project*, (final report to the Florida Legislature): Tallahassee, Florida.

Ann Gilman Dawson, Cynthia Sirk Mikel, Cheryl S. Lorenz, and Joel King, *An Experimental Study of Effects of Employer-Sponsored Child Care Services on Selected Employee Behaviors*, Chicago: Foundation for Human Services, Inc., August 6, 1984.

Jules M. Marquart (1988), *A Pattern Matching Approach to Link Program Theory and Evaluation Data: The Case of Employer-Sponsored Care*, Cornell University, (Dissertation): Ithaca, NY.

Cynthia Ransom, Pamela Aschbacher, and Sandra Burud (1988), *The return on an investment in child care benefits—is it real? The Union Bank Story*, unpublished manuscript: Pasadena, California, and *Productivity impact study conducted for Union Bank Child Care Center*, unpublished report: Pasadena, California.

D.L. Burge and D.L. Stewart (1988), *The Dominion Bank Story*, Virginia Tech University: Roanoke, Virginia.

Studies of Employer-Supported Child Care

Research Site	*Research/Cite*	*Sample*	*Research Design*
Federal OEO- Washington, D.C.	Krug, et al (1972)	50 parents from center 50 in control group	Pre-post test of users compared to control group
Control Data Consort. Minneapolis, MN	Milkovich & Gomez (1976)	30 center users 30 parent non-users 30 non-parent	Post-test of center users compared to 2 control groups
Multiple Companies– National with child care	Perry (1978)	58 employers, most with on-site centers	Survey of manager perceptions
State of New York Children's Place– Albany, NY	WRI (1980)	88 users of center 1 year after opening	Post survey of user (66% response)
Statewide Survey of Employers–Minnesota	AAUW (1982)	563 firms with and without child care	Survey of manager perceptions in 200 randomly selected companies and selected interviews
Multiple Companies– National with child care	Magid (1983)	204 employers with child care programs, mostly on-site	Survey of manager perceptions
Multiple Companies– National with child care	Burud, et al (1984)	178 employers, most with on-site centers	Survey of manager perceptions
Methodist Hospital	Burud (1984)	123 users of center	Post survey of user perceptions (71% response)
North Carolina, Textile Firm	Youngblood, et al (1984)	410 people in co. with center; 3 divisions of another co. with no center	Comparisons of employees in firm with center and those in firm without
Statewide Survey of Employers–NY	Governor's Comm. on Child Care (1986)	1041 firms with and without child care	Survey of manager perceptions in 10,558
Kid's Play, State of Wisconsin Pilot Day Care Center	State (1987)	56 users; 35 supervisors of center users	User perceptions survey before enrollment, 5 months after opening and 17 months after. Manager perceptions also surveyed
Ina S. Thompson Child Care Center State of Florida	Department of Administration (1987)	37-62 users; 42 supervisors of center users	User perceptions surveyed 9 months after opening and interviewed 1 year later. Interviews with managers
Multiple Companies– National	Dawson, et al (1988)	311 employees in 29 companies with various child care programs	Post-test of employees using company-sponsored child care programs
Catherine McAuley Health Center	Marquart (1988)	86 parents using hospital-based child care center or family day care program; matched to group of other child care users	Pre-post test of hospital center users compared with hospital-sponsored family day care centers and parents using other child care
Union Bank– Los Angeles, CA	Burud, et al (1988)	87 users 1 year before center opened and 1 year later	Pre-post test of users compared to control group, parents on waiting list and other bank employees
Dominion Bank Roanoke, Virginia	Burge & Stewart (1988)	400 randomly selected employees	Post-survey of all employees and users

up to two years after. This comparison is critical for establishing causality, a consistent flaw in many analyses. Without a before and after test of groups, no evidence can be provided that the differences found between users and nonusers did not exist before the center opened.

Six of the studies are evaluations conducted for sponsoring employers. Five are based on employee perceptions of effects after using the center for at least five months.

Early Skeptics

A flurry of child care centers sponsored by employers opened in the early 1970s. The first experimental study was conducted in 1972 at the day care center sponsored by the federal Office of Economic Opportunity (OEO) in Washington, D.C. The evaluators concluded: "There is no evidence that OEO users of the CDC (Child Development Center) are absent or tardy less in 1972 than in 1971 before the CDC was in operation."

Milkovich and Gomez conducted the next experimental study at the 120-child center created by Control Data Corporation and 12 other Minneapolis employers. A random sample of 30 mothers with children in the center were compared to a matched sample of 30 mothers whose children were in other forms of care, and to a sample of 30 other employees (80 percent female) who were not parents or whose children were grown. Because very little is known about the kind of child care used by those not enrolled in the company-sponsored center, or why those parents did not use the center, it is difficult to ascertain if the reduced absenteeism and turnover rates found were caused by the company-sponsored child care center.

In 1980, a child care center was created in the factory of a North Carolina textile firm employing 95 people. The work performance of employees in this company was compared to another nonunion textile firm nearby. This firm had 1,000 employees and no child care center. The comparison group was described as needing improvement in morale, absenteeism, and turnover. These differences favored the company sponsoring the center, especially since comparisons were made with the entire employee population, and not specifically users of the center. As a result, the evaluators claimed that the center improved attitudes and work behavior, but admitted that "causality cannot be ascertained with certainty."

In a review of all these centers, the U.S. General Accounting Office observes: "None of these studies, nor any other research that came to our attention in this review, adequately established, in our opinion, a causal relationship between providing child care services and cited benefits to the employer."[78] *Personnel Psychology* concludes: "Despite enthusiasm by some chief executive officers, public relations officials, and child care advocates, assertions that employer-sponsored child care reduces workers' absenteeism or tardiness, or that it increases workers' productivity or job satisfaction, are not supported by credible research."[79]

Newer Research

More recent studies attempt to correct some of the flaws in earlier research. The Union Bank Child Care Center in Los Angeles, providing care to 60 employees' children age 6 weeks to 5 years, was evaluated 1 year before and 1 year after it opened in January 1987. The employees who used the center were compared with three groups; employees using other forms of child care, employees who were on the waiting list for the center, and other Union Bank employees in the area. The results, based on personnel records and employee reports, indicate that the child care center had a positive effect on turnover, absenteeism, maternity leave, and public relations. The relationship to tardiness, morale and recruitment was less clear.

The turnover rate for the bank as a whole was 18 percent. For parents not using the center, 9.5 percent of employees left the bank compared to 2.2 percent for center users. None of the center users quit to stay home with their children while 11 nonusers did.

The center is also credited with reducing the length of maternity leave. Users of the center were out 1.2 weeks less than mothers who used other forms of child care. However, once the infant program was filled, mothers did not have that advantage. It seems that the size of the infant program determines the overall impact on maternity leaves.

One year after the center opened, employees using the center were found to be absent 1.7 days less per year than other parents with children in child care. However, the absenteeism rate for center users did not drop from before enrollment in the center. The authors point out that at least the absence rate did not increase, as it did for nonusers. The authors of the study contend that children have the highest incidence of illness during the first year they are in group care. They concluded: "Absenteeism would be expected to drop during the second and subsequent years of the program's operation."

Half of the supervisors of employees using the center believed morale had improved among center users. The other half felt that morale was already high. Some supervisors reported improved morale among co-workers of center users, and 60 percent of them reported that their own morale was improved. One co-worker commented,

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[78] U.S. Government Accounting Office, *Parental Leave: Estimated Costs of Human Resources, 925, The Family and Medical Leave Act of 1987*, Washington, D.C.: GAO/HRD 88-34, November, 1987, p. 13

[79] Thomas I. Miller, "The effects of employer-sponsored child care on employee absenteeism, turnover, productivity, recruitment or job satisfaction: What is claimed and what is known." *Personnel Psychology*, 37, pp. 277-289.

Union Bank Child Care Center
1987 Cost Savings*

Turnover	$63,000–$157,000[1]
Absenteeism	$35,000[2]
Public relations	$40,000[3]
Total Cost Savings	$138,000–$232,000[4]

* Does not include savings from reduced recruitment cost, improved morale, reduced tardiness and reduced tax expense.

[1] The 2.2 percent rate of turnover for center users compared to the 9.5 percent rate for those using other forms of child care translates into "at least 6.3 employees retained due to the availablility of the center." Based on 1980 figures from the Merchants and Manufacturers Association calculating the turnover costs for exempt office and technical workers in Southern California firms, Union Bank reduced turnover costs by $63,000 in the first year. If the 18 percent turnover rate for all Union Bank employees had been used, cost savings would equal $157,000.

[2] This cost was calculated as the average daily salary based on the weighted average monthly salaries and benefits by grade level, and assumes that only 20 percent of the absences require a replacement worker at the same cost.

[3] Dollar figures for the 27 newspaper and magazine articles, two TV and one radio spot, were calculated by an independent advertising firm based on a cost of equivalent advertising.

[4] In addition to the savings above, with a new state tax credit that went into effect the year after this study, the Union Bank is eligible to claim a $600 tax credit for each full-time child in the child care center, or a total of $36,000 in tax savings per year until 1992.

"I would have to do her job if she were tardy or absent, so it's been good for me."

Burud & Associates, who conducted the study for Union Bank, concluded that it was able to recover its annual subsidy of $105,000 (more than 40 percent of the center's operating budget). They estimated that within five years the Bank would fully recover its $430,000 in start-up costs (see box above).

In 1984, a study was made of the child care center at the Catherine McAuley Health Center (CMHC) in Ann Arbor, Michigan. The health center, the most successful Midwest institution in the Sisters of Mercy Health Corporation chain, instituted a variety of quality of work-life programs, including the day care center that opened in 1983 for 110 children at a cost of $1 million. The health center also offered a "cluster care program" that screens family day care providers and places them on a referral list made available to CMHC employees. This program was intended to offer greater flexibility to the employees working night shifts, rotating shifts or week-ends, and to those who would not get into the center or preferred a more home-like environment for their children.

The study compared the center users with the cluster care users. Center users were also compared with other parents of preschoolers and school-age children not using the CMHC programs. The groups were generally well-educated, well-paid, technical and professional employees in their thirties. Center users were the best educated of the groups, most likely to have an employed spouse, and had the highest family income. The evaluator did not believe these differences directly affected the variables being measured.

The study found that center users had a higher level of satisfaction with their child care arrangements, but they also had more work-related problems caused by their child care arrangement than did cluster program users or other nonusers. These problems did not occur frequently and were most often related to the need to stay late or leave early. Center users also experienced greater stress related to child care, and more problems when the child was sick. Nonuser parents relying on in-home care had significantly fewer work-related problems caused by their arrangement than family day care users.

Facility users said the child care program influenced their decision to accept and to continue employment at CMHC more than the other groups. Continuing employment was the major effect of the study. Turnover was measured in two ways: (1) the employee's intention to continue employment at the company, and (2) the employee's actual retention or departure from the company. Program users were significantly higher than the nonusers in their intention to continue employment because of the child care center, but there were no significant differences between groups in the actual turnover rates. The users were also more likely to recommend CMHC as an employer.

No significant differences were found in job satisfaction, organizational commitment, or in the stress associated with balancing work and family life. There were differences, although not statistically different, in absenteeism and in turnover rates. Center users had the highest absenteeism in the year before the program began. They experienced a decrease in absenteeism each year of the program, while nonuser rates remained the same all three years. User absences decreased by about one day during the first year of the program and by an additional half-day the second year. Cluster program users did not show a decrease in absences during the first year, but in the second year, absences decreased by three days, possibly due to the slow start-up of the program. According to the findings: "Although these differences were not statistically significant, the reduced absenteeism rate represents considerable savings that may be of practical significance to the organization if cost analyses are taken into account."

A comparison of employers with and without on-site centers was conducted by Arthur Emlen of Portland State University for the 20 hospitals in the Sisters of Providence network. Of the two locations sponsoring on-site centers for employees—Providence Hospital in Anchorage (Alaska) and Providence Medical Center in Seattle—only the Anchorage hospital was in full operation. Employees in this hospital were compared to 12 other Sisters of Providence sites that did not have child care centers, but

Reasons for Not Evaluating Child Care Centers

Several managers whose companies sponsor on-site child care centers were interviewed about why evaluation research was not conducted at their firms. The findings revealed that some companies had evaluated their centers, but the results were not made public. For instance, Official Airline Guides conducts a review of its center every two years and submits a report to senior management. On most measures—ability to concentrate, job satisfaction, security, availability for overtime—these studies show that more than 90 percent of parents believe the center improves their performance. An executive in human resources at Official Airline Guides reports that one of the strongest perceived effects is on the company's ability to recruit, not just working mothers, but all categories of employees who want to work for a company with innovative benefits.

The director of the Laurance Armour Day School serving employees of Rush Presbyterian/St. Luke's Medical Center said that the hospital "takes it on faith" that the center is improving employees' work performance and has not conducted an evaluation. She keeps her own statistics on employee retention. Every time the hospital acknowledges a group of employees who have reached a new milestone in their tenure at the hospital—5, 10, or 20 years—the director looks to see how many had children in the day care center at one point. In one instance, she found that 25 of the 60 people reaching a new plateau had used the center, a significant proportion since the center serves less than 1 percent of the hospital population.

This director also believes that evaluations would be methodologically difficult and time consuming for the center's staff, particularly considering the complexity of surveying employees from 45 departments. More concrete data would be useful, she says, only when there has been a bad year and pressure exists to trim budgets.

Other firms expressed different reasons for not evaluating their centers. At Johnson Wax, the firm's senior counsel explained that the center was not created to reduce turnover or absenteeism or to improve productivity. As an employee-oriented firm, the company felt it was the right thing to do for employees and their children. To the extent that evaluations take place, they focus on the quality of the center's program.

Management at Fel-Pro, Inc., also feels the company's center is an appropriate service to provide. They were concerned that an evaluation might make it appear that the company had a problem, or that the center had been developed for reasons other than employer awareness. Parent satisfaction with the center, assessed in a general way, has been found to be very high.

Fel-Pro is currently considering a study of its center. According to the center's director, a large enough sample is now available, with 200 parents having used the center over the past eight years. The company has also sponsored a summer camp and implemented an emergency child care program that may also be examined. Fel-Pro reports receiving numerous calls from other companies looking for evaluation data, providing additional incentive for a study.

At the U.S. Senate Employees Child Care Center, evaluations have not been conducted, according to the director, because "people were so glad to get the center, no one has worried about an evaluation." A distant relationship exists between this parent-governed center and the Senate that houses the service.

Based on the findings, it would seem that a company's willingness to conduct an evaluation of its child care program depends upon the rationale for the center, the perceived levels of satisfaction from parents, financial pressures, outside requests for data, and the complexity of the research that would be required.

which had 50 or more women employees with children under 18 years of age. Although the hospitals all belong to the same network, they operate in communities with different child care markets, unique cultural conditions, and distinct employee populations.

On-site programs are also subject to variations in quality and cost. These factors, in aggregate, affect the potential impact of any on-site center. Despite these limitations, the study finds that an on-site care facility makes child care easier. Mothers at the hospital with the child care center reported less stress than mothers at other hospitals. They were also less likely to have changed their child care arrangements in the last year, found it easier to locate child care, and deal with personnel policies as they relate to child care responsibilities.

On the minus side, the study uncovered no evidence that an on-site center reduces absenteeism. Absence rates in the Anchorage facility were the same or worse than at other sites. As the hospital staff indicated: "The mere presence of an on-site facility does not necessarily reduce interruptions, lateness, and other absenteeism, since there are still difficulties associated with getting children ready for the day, delivering them to the facility, and so forth."

A limited number of employers have conducted cost/benefit analyses, evaluations, or empirical studies on the effects of their child care centers (see box above). One deterrent to conducting evaluations is the complexity of the research methodology. While some of the studies are flawed, consistencies in the findings suggest that in order for the center to yield its potential to the company, the child care program must be tailored to employee needs and job demands, and flexible in accommodating a variety of schedules and children.

Mixed Views on Absenteeism

It is logical to assume that absenteeism in a workplace with a company-sponsored center would decrease due to the stability and quality of the program, and that absences due to provider illnesses or program breakdowns would be eliminated. However, several studies report increased absenteeism among center users, a finding attributed largely to sick children.

The higher incidence of absence may be a function of the company-sponsored center's policy and provision for sick children. Employer concern about liability may lead companies to adopt strict sick policies that do not permit their centers to admit mildly ill children. The company has more to lose if the illness becomes an epidemic and many parents stay home with sick children. At a community center, parent absences due to an epidemic would be distributed among a number of employers. In addition, company policies may affect the degree to which absenteeism leads to a loss of productivity. If companies sanction paid absences to take care of sick children, for example, employees may respond to this flexibility and trust by making up lost time on their own. Thus, it is not clear whether the gains from the reduction in the number of child care breakdowns, provider illnesses, and reduced worry over quality are offset by the increased absences due to sick children.

Practical experience offered by several employers helps explain how absenteeism is affected by an on-site center. Susan Doctors, general manager of human resources at Official Airline Guides, observes that higher absenteeism among parents using the company's center might be explained by the company's strict sick policy. She also suggests that "parents may have lost their community network of neighbors and the option of having grandma come across town to pick up the child." Believing that parents belong at home with their sick children, the company provides three personal days that can be used to care for sick family members. On the other hand, the director of the child care center at Fel-Pro, an automative gasket maker in Skokie, Illinois, reports that the company's on-site center was comfortable with accepting a mildly ill child because the parents are nearby and can be called if the situation worsens. Parents are also on hand to administer medication, which center staffs are not permitted to do. Given their concerns about health, hospital centers might be expected to have very strict sick policies, so that absenteeism might increase. However, the director of a hospital-based center in Chicago, Illinois, contends that sicker children are more likely to be admitted because a full-time nurse is on site.

Absenteeism rates are also related to the age of the child. Older children are less likely to become ill, while younger children will be more susceptible to germs.

Managers' Perceptions

Eight studies questioning managers about the effects of child care programs include three national surveys of multiple companies providing child care support (generally in the form of a child care center). Two studies were conducted on statewide samples of employers that may or may not have had a child care program in place, and three measured the perceptions of managers who supervise center users. Some of the samples included managers who were able to observe the actual work performance of center users, while other managers had secondhand reports of the program's impact, and still others had formed opinions based on news reports and personal biases (see Table 14 on page 46).

Not surprisingly, the managers least likely to perceive any positive effects of a child care program were found in the New York State study, where the overwhelming majority of employers were not providing any child care support. In a 1986 survey for the Governor's Task Force on Child Care of 1,041 small-, medium- and large-sized firms, well under 50 percent of managers expected any beneficial impact from a child care program. Managers' perceptions, however, revealed uncertainty more than negative reactions. The expected benefits mentioned included improvement in employee morale and a reduction in absenteeism, turnover and employee stress.

Overall findings from the New York State study may be explained by the preponderance of small companies represented in the sample. However, it separates the views of managers in small-, medium- and large-sized firms. As Table 15 (page 46) indicates, the larger the company, the more likely the manager is to perceive a positive gain from having employer-sponsored child care. This finding is confirmed in the other statewide studies, where primarily large firms were surveyed.

Three national surveys of employers with some form of child care assistance were conducted in 1978, 1983 and 1984. They covered 440 firms, although some overlap may be present in the samples. A company-sponsored center was the most common form of child care assistance reported. Recruitment and absenteeism were the strongest perceived benefits of company child care initiatives. In evaluations of two of the three on-site centers where managers who supervised center users were surveyed, morale improvement was seen as the greatest benefit.

Across all eight studies, morale is seen as the most positive outcome of company-sponsored child care—it was ranked highest in four of the eight studies. Absenteeism was second. Managers in Minnesota and the Florida child care center gave it top ranking, while three others reported it as the second most important benefit.

Parent/Employee Perceptions

Six studies surveyed the users of the child care centers (see Table 16 on page 47). These include three state-sponsored centers, two hospital-sponsored centers, and one corporate center (Dominion Bankshares in Virginia). Generally, the percentage of users reporting a positive effect on any of the measures presented is higher than the percentages of managers evaluating

Table 14: Manager Perceptions of Benefits Gained from Employee-Sponsored Child Care Centers

	Managers of Center Users			*Managers in Multiple Companies with Child Care*			*Managers in Multiple Companies With or without Child Care*	
	Dominion Bank 1988	*WI 1987*	*Florida 1987*	*Perry 1978*	*Magid[1] 1983*	*Burud 1984*	*Minnesota 1982*	*New York 1986*
Improves: Productivity	**48%**	60%	38%			49%	72%	32%
Motivation		43			67	63		
Satisfaction		66			170	83		
Attitude towards work	40			55%				
Morale	**70***	**88***			345	**90***	**85**	**44***
Reduces absenteeism	45	71	**62***	**72**	**214**	53	**89***	**42**
Reduces tardiness	33	54	43		88	36	67	36
Reduces stress								41
Increases scheduling flexibility						50		
Reduces turnover		23		57	211	65	71	39
Improves attitude toward employer				65				
Increases loyalty/ commitment						73		35
Increase in women returning from leave		43			208	79		
Improves recruitment				**88***	**448***	**85**	73	35
Public image/publicity		**77**		60	137	80		
Availability of temporary help					26			
Quality of work force					205	42		
Equal employment opportunity					13	40		
Improves community relations				36	154	**85**		
Improves quality of products/services	30					48	37	
Reduces training costs								14

Boldfaced numbers indicate the highest and second-highest rankings in each study. An * indicates highest ranking.

[1] The Magid study findings are shown as rankings, not percentages, as they are in the other studies.

Table 15: Effects of Child Care Support on Employees' Work Behavior

Percent believing support has positive effect, by size of company.

	Size of Company			
	Up to 100 (N=285)	*101-500 (N=253)*	*501-1500 (N=220)*	*Over 1500 (N=204)*
Recruitment	29.1%	34.0%	44.6%	47.6%
Retention	33.0	34.8	49.5	52.9
Absenteeism	31.6	41.5	54.1	56.9
Tardiness	27.0	36.4	47.3	48.5
Stress	32.3	40.3	53.2	54.9
Morale	37.2	44.7	57.3	54.4
Loyalty	32.6	34.8	44.1	41.2
Training costs	12.6	13.5	17.3	18.1
Productivity	27.0	30.4	40.0	40.2

Source: New York State Commission on Child Care, *Employers and Child Care in New York State*, (1986), p. 26.

Table 16: Employees' Perceptions of Benefits Gained from Employer-Sponsored Child Care Centers

	Dominion Bank	*Methodist Hospital*	*Southeastern Hospital*	*State of Wisconsin*	*State of Florida*	*State of New York*
Improves productivity	67	61	51	**73**	60	**47**
Increases motivation				72		
Improves morale		**79***				
Decreases absenteeism	**84***	**75**	67	72		
Decreases tardiness	60	**79***	**60**	46	60	
Reduces stress					57	**83***
Improves scheduling flexibility	40	69		**82***		
Able to work more overtime	63	62				
Able to work odd shifts		43	42			
Reduces turnover	70	41	**72***	25	43	35
Improves attitude toward employer					**84**	
Increase in women returning from leave		33				45
Improves recruitment		51			81	
Improves public image					**87***	
Would recommend employer	**74**					
Improves promotability		17				

Boldfaced numbers indicate the highest and second-highest rankings in each study; an * indicates highest ranking.

these effects, but less consistency is evident in parent responses across the studies. Two of the surveys report morale as the most likely benefit to result from use of the center. Employees also tend to believe that their absenteeism has declined, and their productivity improved, because of the child care center.

Actual Outcomes

In the six experimental studies conducted between 1972 and 1988—testing 12 different possible outcomes—the most positive benefit of an employer-sponsored child care center appears to be a reduction in turnover (see Table 17, page 48). Four studies found lower turnover rates among center users and a comparison group. (One study was a cost/benefit analysis with a comparison group that did not conduct statistical tests.)

Improved recruitment potential was the second ranked benefit in the studies. Statistically significant findings in two studies document that employee acceptance of employment at the firm was related to the child care center. Similar results showed that center users were more likely to recommend the employer because of the center.

Differences Between Perception and Reality

When comparing Tables 14, 16 and 17, which summarize the findings of all the studies reviewed, notable differences appear between outcomes perceived by employees and managers and those actually occurring as reported in the experimental studies.

The primary benefit of an employer-sponsored child care center as measured in experimental studies appears to be reduced turnover and improved recruitment, while managers and center users are more likely to indicate that morale is the greatest benefit. Managers across studies agree that absenteeism can be reduced and employees are more likely to report an improvement in productivity.

It is evident that the actual benefits of a child care center may be very different than those expected by managers and employees, and that realistic expectations for company child care programs need to be established (see box on page 49). Given labor shortages and growing competition, turnover and recruitment effects of a company-sponsored child care center may be the most important benefits for employers to derive.

Parental Leave

Since the number of working women who will become pregnant during their work careers is increasing, companies are assessing their leave policies for employees, and the impact they may have on decisions to return to work. In a 1981 survey of 1,000 companies by Columbia University, researchers concluded that less than 40 percent of working women are able to take a

Table 17: Findings from Experimental Studies

	Krug, et al 1972	*Milkovich, et al 1976*	*Youngblood, et al 1984*	*Dawson, et al 1984*	*Marquart 1988*	*Union Bank 1988*
Improves productivity/ performance		0		*		+
Increases job satisfaction			*		0	
Improves morale						+
Improves organizational climate			*			
Decreases absenteeism	–	*	0	0	+	+
Decreases tardiness	–					+
Reduces stress					0	
Able to work overtime				*		
Reduces turnover		*	*	*	*	+
Increases loyalty/ commitment			*		0	
Increase in women returning from leave						+
Improves recruitment	+			*	*	+
Would recommend employer				*	*	
Improves community/ public relations						+
Improves promotablility				0		

* Statistically significant differences found between center users and companion group(s).
+ Differences found between center users and others, but no statistical test proved it.
0 No differences found, or couldn't measure the outcome in question.
– The opposite effect occurred, i.e., absenteeism increased.

6-week leave with some income protection. The NCJW study found a comparable number of women forced to choose between their jobs and their babies.

Among women in the NCJW study who did not resume their jobs after maternity leave, 50 percent based their decision on job satisfaction. Health benefits and child care assistance also made a difference. Another 20 percent said that not being able to make "satisfactory child care arrangements" was a deciding factor. The NCJW report concludes: "While some attrition of new mothers from the labor force is entirely voluntary and inevitable, these findings suggest that substantial attrition may be caused by child care difficulties that could be reduced through employer assistance."

One factor related to the workplace impact of parental leave is the ability to replace the individuals who take leave. In a 1987 study,[80] the U.S. General Accounting Office found that fewer than one in three absent workers is actually replaced, that the cost of the temporary replacements is similar to or less than the cost of the employees who are replaced, and that employers in general do not perceive a significant loss of output. In a 1990 study conducted by the Families and Work Institute, employers in four of the states that mandate parental leave were most likely to assign work temporarily to other employees (92 percent used this method), pay overtime to existing employees (66 percent), or hire an outside temporary replacement (41 percent).

The NCJW study also found that workplace accommodations are gratefully reciprocated by pregnant employees (see Table 18, page 50). The accommodations considered important were: (1) job-protected leave; (2) some wage replacement; (3) health insurance coverage during leave; (4) sufficient paid time off for medical appointments and occasional sick days; (5) flexible scheduling that allows for adjustments in the work routine; (6) parenting leave following disability; (7) help with finding or paying for child care; and (8) a sensitive supervisor.

Among the workplaces studied, 2 percent of firms had none of these provisions and 2.5 percent had all eight. The average score for all workplaces was 60 (with "0" assigned to those with no accommodations and 100 to those with all). Workplaces with scores in the highest 20 percentile were considered "highly accommodating" of pregnancy, while workplaces in the

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[80] U.S. General Accounting Office, *Child Care: Employer Assistance for Private Sector and Federal Employees*, GAO, Report No. 66D-86-38: Washington, D.C., 1986.

Steps for Evaluating Child Care Programs

In a study commissioned by the U.S. Department of Labor in 1989, Berkeley Planning Associates screened over 50 companies with child care benefits and conducted intensive case studies of seven firms to understand their interest in evaluating their efforts. The authors conclude that there is little likelihood of most firms being able to conduct very methodically rigorous evaluations of their own child care programs, even if they were motivated to do so. Although an academic standard of research may not be feasible, it is possible for firms to be better informed than they are now, and to enhance their planning and decision making about child care. The following steps were presented for employers considering some evaluation of their child care initiatives:

(1) *Undertake a careful planning process and needs assessment before implementing a new benefit.* Child care benefits should be designed to suit the needs and capacities specific to the organization.

(2) *When designing an evaluation, focus on important outcomes.* Begin by identifying the behavioral effects most important to the firm, and, among these, those most likely to be influenced by the type of child care program that is offered. Focus on a small number of possible effects.

(3) *Recognize the effect of other policies.* Be aware of the extent to which other policies and benefits of the firm may be affecting employee behavior. To some extent, the firm may be evaluating its work-family policies as a whole rather than the child care program in particular.

(4) *Think about data needs in advance.* This will enable the firm to design data-collection systems that will capture the most important information about employee characteristics, behaviors, and attitudes.

(5) *Collect qualitative as a well as quantitative data.* Both surveys and focus groups can provide valuable information.

(6) *Understand what the study can/cannot do.* Expectations about the kind of information to be produced should be realistic and employers should have an idea of how this information can be used. Be sure to take into account study limitations when interpreting results.

(7) *Look at cost-effectiveness.* Consider cost-effectiveness estimates (qualitative comparisons of returns given a fixed dollar amount to invest) as a more realistic alternative to benefit-cost evaluations, especially where study designs have significant limitations or benefits are very difficult to quantify. Another alternative is break-even analysis: Calculate program costs, determine the break-even point, and estimate from quantifiable evaluation findings how close the program is to breaking even.

For firms interested in conducting more rigorous and complex evaluations and who can rely on expert advice, the following additional considerations are warranted:

(1) *Plan prospective evaluations as needed.* When pre-program data are not available, plan a prospective longitudinal evaluation and expect to collect data long enough to show the effects of interest (e.g., a minimum of two years for turnover effects, one year for absenteeism).

(2) *Include behavioral comparisons.* If the goal is to understand something beyond user satisfaction and utilization, include some type of comparison in the study. This may be a comparison of participants' pre-program behavior to post-program behavior and/or a comparison of participants to nonparticipants.

(3) *Use external comparisons as needed.* If no pre-program data are available, and no comparison group can be constructed within the company, devise a comparison group within another (preferably similar) firm. Differences between both the employee groups and the firms should be taken into account.

(4) *Be aware of sample size problems.* Sample sizes of over 50 are desirable. If the user group is small, nothing can be done to increase the size of this sample. A small user group may be the reason to extend the period of evaluation. Having a very small internal comparison group is an argument for looking for an alternative group outside the firm.

Adapted with permission from Berkeley Planning Associates, *Employer-Supported Child Care: Measuring and Understanding its Impacts on the Workplace, Final Report.* Prepared for U.S. Department of Labor, Employment and Training Administration, Office of Strategic Planning and Policy Development, Washington, D.C.: 1989, pp. 203-206. See also *A Guide to Assessing the Benefits and Costs of Employer Child Care Assistance*, prepared by Berkeley Planning Associates, 440 Grand Avenue, Suite 500, Oakland, California 94610.

lowest 20 percentile had "low accommodation." In general, women in the highly accommodating companies were more satisfied with their jobs; took fewer sick days; were less likely to be ill on the job; worked more on their own hours; were more likely to work during their third trimester; and were less likely to quit.

The average number of absences from work due to illness among all women in the sample was only 2.6 days over 8 months of pregnancy. Absences in the highly accommodating companies averaged about 1.3 days less than those in the companies with low level accommodations. Among the women who had stopped working during their third trimester when interviewed, those from workplaces with high accommodations reported having worked about one-and one-half months longer than women from unsupportive companies. The study concludes that "accommodating employers benefit from having experienced workers stay on the job longer."

The NCJW study also found a relationship between job satisfaction among pregnant workers and the degree to which pregnancy is accommodated in their workplaces. Only 41 percent of women working for low

Table 18: Employees' Response to Company Accomodations for Pregnancy

Level of Job Satisfaction (N=2257)	*Degree of Accommodation* Low	Mid	High
Not satisfied at all	8%	3%	1%
Somewhat satisfied	51	36	26
Very satisfied	41	61	73

Behavior	*Degree of Accommodation* Low	Mid	High
Average number of days missed due to illness in pregnancy (N=2216)	3.4	2.5	2.1
How often ill on the job? (N=2218)			
Hardly ever	29%	41%	51%
Not often	22	22	21
Often	22	18	16
Very often	27	19	12
Spend unpaid time on work? (N=2255)			
No	75%	66%	63%
Yes	25	34	37
Still working in third trimester? (N=2257)			
No	45%	26%	21%
Yes	55	74	79

J.T. Bond, *Accommodating Pregnancy in the Workplace* (New York: National Council of Jewish Women, 1987).

Paternity Leaves

Fathers are less likely to be offered parental leave and when they are, it is usually only a few days or weeks.* There is no indication that fathers leave their jobs to care for newborns. A 1983 study by Catalyst found that 37 percent of responding companies offered unpaid leaves to fathers. In the 1988 survey by The Conference Board, 44 percent of companies made leaves available to fathers, 92 percent of them unpaid. Eighteen days is the maximum amount of leave time offered fathers according to The Conference Board survey.

Only nine of the 384 companies participating in the Catalyst study reported that a father had actually taken such unpaid leave. In two studies, one of 36 mothers and another of 40 fathers, fathers were reported to have taken 5.6 and 6.6 working days off, respectively. In Sweden, in 1981, 85 percent of fathers took an average of 7.5 days off from work following childbirth. Anecdotal reports indicate that a growing number of men in the United States are requesting leave.

In Pleck's review of the literature, he concludes that while a few fathers take advantage of long-term leave policies, they do take short-term leave through the "manipulation" of vacation and sick leave and other formal leave. No research is available on the work behaviors of men who take time off for their babies compared with those who do not.

*** Graham L. Staines and Joseph H. Pleck, *The Impact of Work Schedules on the Family*, Ann Arbor, Michigan: Institute for Social Research, 1983.**

accommodating firms indicated that they are very satisfied with their jobs, compared to 73 percent of women in companies that are very supportive.

A U.S. Chamber of Commerce survey reported that half of the responding employers said they had formal parental leave plans. Of these companies, 61 percent said their leave plan improves their ability to recruit and retain workers. (See box above for an update on paternity leave.)

What is not known about pregnancy and parental leave is whether there are differences between first-time and repeat experiences. Anecdotal evidence suggests that women are more likely to leave their jobs after having a second child. The balancing act becomes more precarious, so that greater flexibility is required by company, manager and employee.

Flextime

Work hours have changed little since World War II. Any changes in the workweek prior to the 1950s were designed to protect the health of workers, increase leisure in order to stimulate consumer demand, and ultimately to increase the standard of living. Time off was also thought to increase productivity by reducing fatigue that can lead to reduced output, lower quality work, increased sickness costs and unnecessary absences.

The new demographics of the work force are creating pressure for alternative work schedules. Baby boomers generally feel entitled to make more decisions about their work. They also express more interest in leisure time. The shift to a service economy, where customer contact is vital, also plays a role in the emergence of alternative work schedules that can accommodate longer work days. While these pressures call for a change in the scheduling of hours and where they are worked, they do not necessarily mean a reduction in the workweek.

Flextime can help employees with family responsibilities by: (1) allowing an employee to arrange more time with the family; and (2) reducing work-family conflict by eliminating or reducing scheduling problems.

Prevalence of Programs

In 1978, an estimated 2.5 to 3.5 million workers (excluding professionals, salespeople, and the self-employed who typically control their own hours), were on flextime schedules. By 1985, Department of Labor data show that 9.1 million full-time wage and salary workers, or 12.3 percent, had flexible work schedules.

Data further indicate that men are more likely to benefit from flextime than women.[81] Although more flextime programs are in the private sector, 20 percent of Federal government employees have flexible work schedules and 42 states offer flextime to their employees. The number of employees on flextime in Canada and Western Europe is significantly higher than in the United States.

Based on a 1989 Conference Board survey, half of the 521 large companies responding offered flextime. About a third of these firms had expanded their use of flextime in the recent past. About half planned to increase flextime availability in the near future.

A 1985 survey of medium-sized firms conducted for the American Management Association by Goodmeasure, found 35 percent of firms offering flextime to their employees. Half of these firms had adopted flextime between 1980 and the survey date.

A slightly lower percent is reported in a 1988 study by the American Management Society (AMS) (290 companies responding). Thirty-one percent of employers reported having flextime in the AMS study, double its 1977 figure of 15 percent.

Companies with many years experience using flextime have helped stimulate growth of these programs because of the positive responses from employees and managers. A 1978 review of 14 flextime studies, with an occasional exception, showed that the introduction of flexible work schedules produced a generally positive shift in employee attitudes and did not result in abuses.[82] (See box on page 52.)

Individual company studies, such as the one examining the first experiment in flextime at a German aerospace firm in 1967, found that flextime led to a 40-percent reduction in absenteeism, the disappearance of tardiness, and a dramatic improvement in employee morale. Another company, Messerschmitt-Bolkow-Blohm (MBB) surveyed flextime users in 1969 and found that two-thirds of the employees reported better working conditions, a third noted a better balance between work and private life, and a fourth said they had an easier commute (see Table 19).

Among 43 studies of flextime reviewed in 1980, only 8 inquired into the effects of family relationships, largely, perhaps, because most companies did not implement flextime programs to accommodate family needs.[83] Companies were more likely to be concerned with tardiness, commuting, or morale. Furthermore, other outcomes related to flextime are more easily measured, such as the number of insurance claims, stress-related illnesses or accidents, or tardiness.

Table 19: Reports of Effects of Flextime

	MBB (1969) N unknown employees	*GAO (1985) 2,000 employees*	*AMA (1978) 196 companies*	*AMS (1988) 290 companies*
Better working conditions	**65%**			
Better balance with private life	**31**	72%		
Easier travel	**31**		77	
Better fit work rhythm	**21**			
More freedom	**12**			
Better fit of work to performance	**6**			
Improved morale		74	97	40
Improved productivity			48	
Reduced turnover			53	17
Reduced absenteeism			73	17
Reduced tardiness			84	82

As Ronen reports, flexible hours can satisfy both intrinsic and extrinsic needs. Extrinsic needs are met because flextime improves basic work conditions by allowing adjustments in commuting times, reducing anxiety about tardiness, and shifting management's focus away from monitoring attendance. The intrinsic benefits accrue because flexible work schedules increase employee responsibility, independence and growth potential, thus motivating the employee. One study concludes that "under conditions when flexible work schedules reinforce specific employee needs, a contribution to satisfaction, job involvement, organizational commitment and work attendance can be expected."

The recent Conference Board study found that only 2 percent of firms collect data on the costs of their flextime programs.[84] While 84 percent of firms that offer flextime are satisfied with the job performance of employees, only half (51 percent) are satisfied with the ease of supervising them. This discrepancy between the effects of flextime on employee work performance and ease of supervision was found with all alternative work schedules. Flextime was typically mentioned as the arrangement found most advantageous in reducing absenteeism and turnover.

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[81] Earl Millor, "How Prevalent are Shift Work and Flextime?," *Monthly Labor Review*, November 19, 1986.

[82] Stanley D. Nollen and Virginia H. Martin, *Alternative Work Schedules, Part I: Flextime*, New York: AMACOM, a division of American Management Associations, 1978.

[83] R.A. Winnett and M.S. Neale, "Results of an experimental study on flextime and family life," *Monthly Labor Review*, November, 1985, pp. 29-32.

[84] Kathleen Christensen, *Flexible Scheduling and Staffing*, The Conference Board, Research Bulletin 240, 1989.

Perceptions of Users and Non-Users of Flextime

Good and bad effects of flextime among 196 users.[a]

Good effects[b]	*Bad effects*[c]	*Sometimes good, sometimes bad*[d]
Raises employee morale	Management job made more difficult	Coverage of work situations
Reduces tardiness	Internal communication worsened	Employee scheduling
Eases employee commuting		
Reduces absenteeism		
Makes recruiting easier		
Reduces turnover		
Increases productivity		

[a] In order from strongest to weakest.
[b] Half or more of all users reported better results due to flextime, with few or no worse results expected.
[c] Up to half of all users reported worse results here, with few or no better results reported.
[d] Responses about equally divided here, no change, or worse results caused by flextime.

Expected good and bad effects of flextime among 374 non-users.[a]

Good effects[b]	*Bad effects*[c]	*Sometimes good, sometimes bad*[d]
Raises employee morale	Management job harder	Productivity
Makes recruiting easier	Employee scheduling harder	
Reduces absenteeism	Work scheduling harder	
Reduces tardiness	Coverage worse	
Reduces turnover	Internal communication worse	
Eases employee commuting	Utilities costs higher	
	Personnel administration harder	
	External communications worse	
	Support services cost more	
	Relationships with customers worse	

[a] In order from strongest to weakest.
[b] Half or more of all non-users expected better results due to flextime, with few or no worse results expected.
[c] Half or more of all non-users expected worse results due to flextime, with few or no better results expected.
[d] Responses about equally divided among better, no change, or worse results expected under flextime.

Source: S.D. Nollen and V.H. Martin, *Alternative Work Schedules: Flextime*, an AMA survey report, New York, AMACOM, 1978, pp. 21, 29.

More Time is Really More Convenient Time

While flextime does not reduce the total number of hours worked, more conveniently arranged hours may permit more time spent on activities outside work. In a study of 79 clerical workers, regular users of flextime showed a significant change in nonwork activity, while those who were not on flextime did not.[85] A 1978 evaluation of flextime at John Hancock Insurance Company found that workers increased their family time while on flextime. In another study, groups with more discretionary time displayed the strongest attachment to their jobs. This was confirmed in another study where 90 percent of those on flextime indicated that this work arrangement had increased their interest in remaining with the organization.

A dramatic reduction in both absenteeism and tardiness was experienced by 92 organizations participating in a national survey. Turnover was less affected, with 61 percent reporting no change, and 39 percent reporting a reduction in turnover after a year. After 3 years of flextime, however, turnover reductions were reported by 64 percent of the firms, while 36 percent reported no change.

A 1985 study of 2,000 Federal employees by the U.S. General Accounting Office compared employees on flextime and those on standard schedules.[86] Eighty-nine percent of the employees with dependent care responsibilities were found to be satisfied with their work schedules, compared with 62 percent of those on fixed schedules. Three-fourths of the flextime users reported that the program had a positive effect on morale, and 72 percent used alternative work schedules to let them take care of family obligations, doctor's appointments, meetings and school carpools.

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[85] Jon L. Pierce, John W. Newstrom, Randall B. Dunham, Alison E. Barber, *Alternative Work Schedules*, Boston: Allyn & Bacon, Inc., 1989, p. 34.

[86] Halcy Bohen and A. Viveros-Long, *Balancing Jobs and Family Life*, Philadelphia, Pennsylvania: Temple University Press, 1981.

In 1981, a study of 325,000 employees by the Office of Personal Management revealed that flextime users spent more time with family, more time on household chores, and more time in children's school activities. The freedom to set work schedules enabled employees to spend less money for babysitting services. The data strongly suggest that alternative work schedules may enhance the quality of family relationships and child care.

Another study of federal employees, comparing flextime users with a control group, found that employees on flextime generally came to work earlier and gained increased family time in the evening. Bohen, who analyzed flextime at two federal agencies in 1981, found no significant differences in the time allocated to child care between those on flextime and those on standard hours, although flextime users increased the amount of time spent on housework. Researchers concluded that "flextime may increase the amount of time that wives spend in family roles and thereby render even more inequitable the traditional division of labor."

The Bohen study showed a slight discrepancy in the perceptions of shared household labor. While 50 to 60 percent of men said they shared responsibilities equally with their spouses, less than 40 percent of women agreed. About 40 percent of women wanted their husbands to do more housework, while 15 percent of men thought their wives should do more. Sixty-five percent of women wanted their husbands to assume more child care responsibilities.

Less Work-Family Conflict

The Bohen study reveals that flextime helps reduce work-family stress for single adults with no children, married women with no children, and married fathers in traditional families—but not mothers. According to the report: "The magnitude of the logistical, energy and time demands on families with two employed parents or a single parent cannot be dramatically altered by minor changes in daily work schedules." The flextime schedule under evaluation at this federal agency allowed variations of one-half hour at either end of the day. Such limitations on flextime seem to have little effect on diminishing work-family stress.

Staines and Pleck report in their analysis of the 1977 Quality of Employment survey that one-third of all workers believe their jobs and families interfere with one another. While gender does not make a difference in the overall level of work-family conflict, men tend to complain about excessive work hours while women are strained by scheduling conflicts. The authors also found that scheduling control means more than when to start and stop work; it can moderate the relationship between stressful work schedules and family life.

The analysis of alternative work schedules helps explain why the family is subordinated to work when work-family conflicts arise: Since people have less control over their work schedules than their family lives, families tend to make all the adjustments.

The overall work-family effects of flextime may be modest compared to other program initiatives. Research suggests that flextime plays a modest role in solving work-family conflict. Far more significant are the returns to the company through the elimination of tardiness, improvements in attitudes, reduction of absenteeism, and increased recruiting advantages. Since implementation costs are so low, little is needed to show a return on investment for flextime. Of the 196 companies in the AMA study, 80 percent report no change in personnel administrative costs, training costs, or support services (security or cafeteria) due to the adoption of flextime.

Employee Assistance Programs

Employee assistance programs (EAPs), designed to handle substance abuse and other employee problems affecting job performance, have been in existence for more than 20 years. Only a handful of EAPs (out of an estimated 8,000 to 10,000 company programs) have conducted cost-benefit analyses that have been publicized. Among the results of EAPs:

- The U.S. Postal Service claimed annual savings of $2 million;
- New York Telephone claimed annual savings of $1.5 million;
- Du Pont's EAP showed a net profit of $500,000 for one year;
- Burlington Northern Railroad claimed a $14 return on every $1 invested;
- A major airline reported a $16.35 return on every dollar; and
- United Technologies EAP director claimed a 3:1 return on investment based on increased productivity, lower insurance costs, reduced absenteeism—all in the first year.

Hewitt Associates estimates that the average per-employee cost of an EAP is between $18 and $36.[87] (The cost is divided by the entire employee population, not just users.) But the cost of employees' bad habits and problems that go unchecked appears to be significantly higher.

In 1980, Illinois Bell studied 752 problem drinkers before and after they had been referred to the EAP. The employees' job performance ratings before entering the program were "fair to poor" 90 percent of the time. After counseling and/or treatment, the ratings rose to 66 percent "good." The company concluded that the EAP helped to achieve a 52 percent decrease in disability claims, a 42 percent decline in off-duty accidents, and a 61 percent drop in accidents on the job. Without the EAP, one employer found that an employee with alcohol problems is:

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[87] *Employee Assistance Program Benefits, Problems, and Prospects*, Washington, D.C.: Bureau of National Affairs, March, 1987.

- three times more likely to be absent eight days or more;
- three times more likely to receive sickness benefits;
- four times more likely to have accidents; and
- five times more likely to file compensation claims.

Several literature reviews question whether anyone can identify and measure all program costs and whether benefits of EAPs can be identified and measured—and some question whether such measures are possible at all.

Sheila H. Akabas from Columbia University's Center for Social Policy and Practice in the Workplace, who addressed the Arden House group, commented:

> "In many ways, counseling is preventive intervention, especially if you get people early in the process. We have not figured out how to measure what does not happen. So in fact, if you solve that day care problem quickly or you take care of elder care, there is nothing to measure. Counseling programs also require psychological intervention. We have no way of measuring the effectiveness of psychotherapy…[therefore] we do not know how to measure the outcomes of employee counseling programs."

Some companies believe that employee reactions to the program provide adequate justification for its success. The Equitable's Charlotte, North Carolina office surveyed its employees after implementing an EAP and found that half of them reported feeling healthier, having a more positive outlook on life, and feeling a part of the company community.

After implementing an EAP, particularly one that develops a positive reputation, the number of people seeking its services and the number of referrals (by managers) to the program are likely to increase. Such growth may not be indicative of an increased incidence of problems. It may mean that people feel more comfortable seeking help for those problems, that referrals have become more acceptable, or that problems are more apparent.

Most of the research on EAPs focuses almost exclusively on substance abuse. Akabas comments:

> "The movement to make EAPs into so-called 'broad brush programs,'—programs that are not alcoholism-focused, but more a 'help-without-hassle' effort—has attracted everybody to the programs: employees with family problems (spouses, children and other relatives), and other concerns including health care, legal problems, and financial problems. In fact, one of the great debates in the EAP movement has been how much of the problem is alcoholism and substance abuse and how much of it is another kind of problem. There are indications that problem clarification very much depends on who is delivering the service."

One study found that 28 percent of the problems presented to the EAP were family-related. But alcoholism can either precipitate family problems or be caused by them. In essence, EAPs try to prevent behavioral and emotional problems from becoming physical ailments. The problems addressed in the evolving, broad-brush EAP cannot be quantified simply by measuring changes in absence or accident rates.

Akabas noted that one of the most important benefits of EAP-generated data is that it is not derived "from outside research, but is specific to the conditions in the particular company where the EAP exists. It is one thing to note that The Travelers' study found lots of people who were dealing with older adults and conclude that the company should have an older adults program. It is quite another thing to say, 'our EAP program sees 20 percent of the people who are coming in with elder care problems and we, in this company, need a program to deal with that.' A good management information system in an EAP program can document the need and can begin to change that workplace in order to respond."

The ability of an EAP to achieve these goals depends on the support for the program. A Hazelden Foundation report concluded that the emphasis on health care cost containment will put employee assistance programs "under increased pressures to contain costs and deliver better cost-effective services."[88] Some EAP experts caution that broad-brush EAPs may not be effective if proper resources are not devoted to their expansion.

EAP cost effectiveness is not a return on investment that shows up on the annual financial report, since the costs and returns are preventive and not easily quantifiable. However, continued efforts are being made to document the benefits of EAPs in order to protect their future and improve their services.

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[88] Ibid, p. 25.

Perspectives on the Research Process

A great deal can be learned from the experiences of companies and researchers who have been involved in worksite research on the family. To understand more about the research process—its purposes, resistances, costs, methodology, and usefulness—a panel of corporate managers was assembled at the Arden House Symposium to exchange research experiences. (Panel members are identified in the Method Box on page 6.) Their companies participated in research designed to define the problem—before most of their family-supportive policies or programs were implemented. Subsequent interviews were conducted with several companies that had evaluated various work-family programs and policies, and those who had not (see box, page 44). In addition, interviews were conducted with several researchers to get their perspectives on the research process.

The Rationale for Conducting Research

After conducting studies at three companies, researchers Googins and Burden from Boston University's School of Social Work prepared a paper outlining their reactions to the research process.[89] They focused primarily on the barriers to conducting work-family research and made some recommendations for overcoming those barriers. Their experiences confirm many of the issues raised by the corporate executives who managed the research process internally.

While the most frequently expressed purpose of conducting research among the companies interviewed was to learn more about the demographics of workers, the sources of data varied. At Digital Equipment Corporation, using external data was unacceptable to management because it would not construct a company profile. In the past, when employee populations were homogeneous, conducting a survey to create an employee profile was not necessary. Companies want to know how the work force has changed, how it may change in the future, and what problems result from these changes. Merck & Co., for example, recognized that they needed to learn more about dual-career couples and single parents in order to understand the size of the problem and whether it warranted a company response. IBM found relocation offers among dual-career couples turned down because of finances and a partner's career. The company wanted to find out whether a trend was developing that would lead to problems in staffing executive positions in the future.

Companies are also interested in comparisons among divisions of their firms, with their competitors in other companies, and with the U.S. population as a whole. At Du Pont, problems were arising at some company sites. The company's second survey was designed to measure the problems and articulate them quantitatively because, as Faith Wohl put it, "Quantitative arguments work at Du Pont—it is a research company."

Resistances to Worksite Research

Company resistance to research may be based on a concern about employee reactions to issues of privacy, the sensitive nature of the questions that are posed, and the expectation that the company should do more. A decision to proceed is made only when it is clear that the company is prepared to respond to the findings.

According to the researchers, since most companies believe that work and family are separate spheres of activity, the concept of work-family interaction does not exist. Thus, research on these issues is not considered a legitimate pursuit. Early studies of job performance and satisfaction, usually of men, focused on job-related variables. Early research on women focused on how female employment affected marriage and children, with the

[89] Dianne Burden, Bradley Googins, Ceil Downey, and Ray Levesque, *The Politics of Evaluation Research: Gaining and Maintaining Access to the Work Setting for Social Research*, Boston, Mass. Boston University School of Social Work, 1986.

Surprise Findings

Several companies were surprised that gender issues surfaced in the way they did—or turned out to be less important than originally assumed.

At Du Pont, the finding that work-family issues are not just women's issues got management's attention. With the proportion of female employees approaching 24 percent, the most persuasive finding was the 70 percent of all employees with children under 13 who said they use some form of child care outside the home. It was evident that child care was a mainstream employment issue.

At Digital, officials were surprised that women with young children, regardless of marital status, have similar problems in balancing child care and home responsibilities. This illustrates that many men still do not participate equally in raising the children and doing home chores. Significant differences still exist between men and women on the extent of childrearing roles.

At IBM, male employees did not realize the extent of the diversity. For example, when comparing the household structures of male and female employees of different ages, women were found to represent far more varied types of households, including many singles with dependents, whereas men typically lived in traditional family settings. They were also surprised by the large number of men who said they would be likely to take a leave of absence following childbirth or adoption.

Surprises also occurred elsewhere. One Digital operation learned that of the 45 percent of women who were planning to have children in the future, 72 percent were planning to have them over the next four years, and many of them did not want to return to full-time jobs. With low unemployment rates at the time of the survey, managers at the surveyed location began taking a look at job redesigns and part-time work opportunities.

assumption that work would have a negative impact (see box above).

The company may also be concerned about uncovering negative findings, or findings that will strengthen the union position during contract negotiations. In one company studied by Burden and Googins, questions about employees' child care arrangements and problems were rejected by the labor relations department because the data could be used by unions to strengthen their bargaining position on child care during contract negotiations. Negative findings that reflect poorly on the company or management might be risky for managers to present. The researchers found that managers who perceive their security as tenuous are not risk-takers.

Another company issue centers on the legal consequences related to control over the company name in published findings. Several of the companies studied were willing to relinquish ownership rights to raw data as long as they retained absolute control over the way they were identified in publications or publicity.

Although some companies are predisposed to research as a tool for decision making, they may have a negative view of social research. For example, one company's unique management style is one that researchers like to study. But senior executives have been unhappy with case studies, developed for graduate programs, that have revealed company secrets and strategies.

IBM, another company with a long tradition of conducting research, found resistance in the wording of specific questions. "Do we really want to ask our employees if they are going to have or adopt more children in the next five years? How are we going to word the question that will allow us to ask about 'significant others' and partners?"

Company work environments, too, may not be ideal laboratories for research. Researchers can be shuttled from one manager to the next, and key players often change because of transfers or restructuring.

Some recommendations by the researchers for overcoming barriers to conducting work-family research at the worksite include:

- Build a relationship with managers inside the company.
- Gather information about current internal issues at the company.
- Link the project to vested interests, especially those of the inside advocates, in order to stimulate the commitment.
- Obtain management support. This will insure later acceptance since more managers will have been involved with the process.
- Pilot test the survey instrument and have groups of employees review it to weed out inappropriate or overly sensitive questions.

Response Rates

While company response rates vary widely, almost all covered in this analysis were above 50 percent. The response rate is affected by several factors, including the perception of company support for the issue being surveyed; the method of distributing the survey instrument; cover letters (how they convey the company's purpose and whether they include an endorsement from top management); the ease of completing the survey instrument; and, the degree of anonymity afforded.

The NCNB response rate was 72 percent. The cover letter was signed by the president, undoubtedly a factor in gaining participation. Branch managers followed up with their own letters. Employees were asked to complete the survey at work because of the high number of hourly employees who would need to be compensated if they completed the questionnaire on their own time. Similarly, at Digital, with a survey that took at least 45 minutes to complete (a disincentive for employees to participate), one unit allowed employees to go into the cafeteria on company time to work on it.

The potential for feedback may affect the response rate, too. IBM's periodic opinion surveys, which are completed in group settings, provide feedback at a departmental level. These surveys typically have a 90 percent participation rate. The survey on work/life issues was mailed to the employee's work station, and employees learned there would be no feedback. This may explain the lower response rate of 78 percent. This response, however, is the *highest* recorded among IBM surveys other than the opinion survey.

Does Research Guide Work-Family Responses?

Companies learn what support employees need from their surveys. The findings can be used to convince skeptics in the organization of the need for change and help direct the appropriate courses of action.

At Du Pont, one of the most urgent needs that surfaced was more information about child care services. The finding prompted a series of recommendations, one of which was to set up a resource and referral service in 1985 for employees and community residents. The service has since expanded from the corporate headquarters program to a statewide information and referral service.

NCNB began a new maternity leave policy based on their survey results showing that many women wanted more flexibility in their return to work. The four-month maternity leave was changed to a six-month leave with various phase-in options, and included full-time benefit coverage.

And at Digital, the survey provided additional impetus for programs and initiatives already in their development stage.

Dissemination of Findings

Managers and researchers report that feedback is essential and should be provided throughout the company. Attention should be paid to the implications of the findings and what they mean for new company initiatives. Some guidelines offered:

- Conduct meetings and briefings with personnel management teams.
- Advise managers and employees separately, and provide each group with project updates to arouse curiosity and gain support.
- Attend formal management meetings in order to gain visibility for the research and present project updates; seek other ways to be regularly available to the company.
- Publicize project updates in in-house publications.
- Post notices throughout the worksite that outline the steps of the project.
- Hold informal discussions with employees as the project progresses.
- Monitor the project to prevent misinformation and rumors, and to alleviate fears about the project.

Directions for Future Research on Work-Family Issues

At present, consistent research findings are available to identify the nature of the problem and the individuals most likely to be affected. Sufficient evidence also exists to convince receptive employers that work-family programs can positively affect the bottom line. While no amount of research will convince some employers, others may need more specific information in order to take action.

As noted earlier, gaps in research exist because of the sensitivity of the issues, corporate naivete about social science research, and the cost of conducting such research. A more significant factor inhibiting work-family research may be related to the stage of employer involvement in work-family issues: Many companies are still debating whether or not to get involved, and are not at the point of focusing on specific responses. Therefore, research to date has more frequently been used to persuade than to implement.

The new generation of research calls for greater sophistication in process and purpose—inquiries that are interdisciplinary, longitudinal, comparative and visionary. Outlined below are some ideas for research that meet these standards and can further the knowledge about work-family problems and programs.

Interdisciplinary Research

The issues being addressed—an interaction between the organization, the individual and the family—call for experts working together within each realm to enhance the quality of findings, improve their usefulness in designing a corporate response, and avoid clashes between researchers who want to know about the well-being of the family and the managers who want to know about the well-being of the organization. Some areas for study include:

Revisit theories of work motivation and satisfaction by including a family focus. The question is whether family supportive policies motivate employees to become more productive or merely prevent them from being less productive. New values, worker expectations and lifestyles, as well as demands for workers, present challenges to classic management theory.

Publish available research on work-family problems. Generally, company needs assessments are not publicly available or, at best, not widely available. Research buried in academic journals is not readily accessible to the business community. More "bilingualism" is needed in the presentation of research findings.

Improve the practical application of work-family responses by involving organizational development experts and strategic planners. If schools of business administration were to consider work-family issues in their curricula, managers would not only be better prepared when they entered organizations, but new case studies and analyses, perhaps textbooks, would further understanding of the work-family nexus.

Holistic Research

Presumably a more interdisciplinary research team would produce more holistic, or all encompassing analyses. Some methods for establishing more comprehensive research are:

Study programs that have failed and examine problems that arise in the implementation process. Current research presents only the good news.

Examine how work-family problems and programs affect co-workers and others indirectly involved. Like secondary smoke, do work-family conflicts experienced by one employee poison the atmosphere for others? Are co-workers more productive when colleagues have their work-family problems solved? Are employees without children resentful of accommodations to child care needs and thus perform poorly?

Study the effect of the corporate culture on work-family conflicts. Such investigations would provide useful information regarding aspects of the culture that might need to change. The deeply rooted values and attitudes of people working for the organization condition a company's response—or lack of response. For instance, an on-site center may not be beneficial if employees are still expected to function in an unsupportive environment.

Comparative Research

Research can be undertaken to compare various company options in order to determine their relative effectiveness in solving certain problems. Companies may be able to learn who is likely to benefit from a given response, in what ways, and with what financial cost and payback. Some ideas for consideration:

Compare the same option in several companies. In this way, the impact of culture can be better understood and insights gained into the effectiveness of implementation strategies, such as methods of communication and employee involvement.

Conduct studies that provide more comparisons between men and women of comparable age, job, and family status. Virtually nothing is known about how men and women respond to different corporate programs.

Examine work-family issues in unsupportive environments at work and in the home. By definition, only progressive companies are studied either because they have been the only ones willing to let researchers conduct the investigations (they presumably have nothing to hide), or because they are among the minority of firms that have family supportive policies that can be evaluated.

Look more closely at lower-income families and the kinds of work-family conflicts they face, as well as their reactions to various company supports. This population is important to study because a large number of welfare women with children over three years of age are now required to work. The kinds of jobs they take and the forms of support they need are likely to be very different than those discussed in the current body of research.

Compare the effects of various programs on high performers versus low performers. The research on child care centers had difficulty measuring productivity because most managers rated employee performance very high. What are the effects of various company programs and policies on low-performing employees? Without some of this research, companies may pursue work-family initiatives in the same atmosphere of meritocracy that exists today: Only those who are deserving should be accommodated. The view is that ad hoc policies on flextime, work-at-home options, or even parental leave should only be given to high performers. What might be overlooked is that the low-performing employee may be less productive because family needs are unmet.

Learn more about the different options themselves. Research should go beyond the simple assertion that child care is good for business or that flextime eases work-family strain. The question is, how much flexibility or what type of child care center? Do differences in administrative structures matter? For example, do the Procter & Gamble centers run by the Salvation Army yield the same return on investment as the center owned and operated by Hoffman-La Roche as a department of the company? Are there differences between on- and off-site centers, especially since they affect the overall culture of the organization and the benefits that might accrue to nonusers? What about enrollment policy? The curriculum? The length of time the center has been open?

In the area of flextime, some evidence suggests that the amount of time the program is in place matters, and that the degree of flexibility will influence the outcomes. It is not very useful to say that "flextime works" without specifying the length of the core hours and the frequency with which arrangements can be changed.

Examine groups of employees in various family and job situations. Little research has been done on the effects of divorce and subsequent single parenting, or on the impact of a company garnishing wages for child support payments. Very little data exist on problems of workers with handicapped dependents, children with drug problems, and elders in long-term care. More attention can be directed at the special needs and interactions of immigrant populations. Few studies exist on the effects of company relocations where the employee is adjusting to both a new city and a new work environment after uprooting the family. And research is particularly lacking on the work-family issues that emerge before, during and after downsizing, mergers and acquisitions.

Longitudinal Research

Research is needed that analyzes different levels of commitment to work and family roles, and the ways in which interventions work over time.

Study women employees over a period of years before and after childbirth. It is surmised by some that whatever setbacks in work occur as the result of childbearing or childrearing are temporary. While a woman may "drop out" of the workforce, it is assumed that she will return. What conditions ease the impact of parenting? Which ones exacerbate the problem?

Interactive Research

Conduct research that can integrate the effects of various company responses occurring simultaneously. Most companies pursuing family-supportive policies realize that no one solution can solve all problems faced by all employees. Since these firms tend to package several programs to address multiple needs, studying any one particular response is often difficult. For instance, how can one assert that a child care center improves productivity if flextime is introduced at the same time as the center opened?

Examine the coping strategies and vulnerabilities of employees with multiple family responsibilities. Just as companies implement multiple solutions, employees often face multiple problems. A significant number of employees have responsibilities for both old and young dependents. What is the cumulative impact of these family responsibilities, and which concerns are more important to address in the workplace?

Focus research on dual-earner families that specifically looks at the characteristics of both earners' jobs and their mutual and separate impacts on each other and the family. One researcher concluded that, "Some studies convey a sense that the dual-earner family is simply a place where two employees, one male and one female, eat dinner together every night. The lifestyle is a product of joint interest." Research could be important in shedding more light on the nature of work-family conflict, and what company responses are appropriate. Just as companies have considered the benefits received by the other working spouse, other family-supportive policies should include that focus as well.

Study the relationship between absenteeism, productivity and turnover. Does absenteeism mean less productivity? Some turnover is healthy for the organization. When work-family conflicts are implicated, is the overall impact different? What about the effects on those work measures when problems are accommodated? For instance, some union officials have criticized the on-site child care center for tying employees to a workplace they would rather leave—a case of the company reducing turnover, but not necessarily retaining a productive employee.

Visionary Research

Conduct research to surface work-family problems that will occur in an aging society. The aging of the baby boom is less than 20 years away. Older workers face concerns about retirement, pensions, work schedules, health, and transportation. But there may be problems unique to aging baby boomers. For instance, who will be the caregivers for the potentially large number of women who remain single or childless? At the other end of the age spectrum, what can business expect from the next generation of workers who have spent their early years in child care?

Conclusion

Existing research offers a benchmark for assessing the findings from future studies. By comparing findings, it is possible to see the evolution of employee expectations regarding employer attention to family concerns. Employees may have underestimated their work-family problems in early studies, because workers were concerned about admitting, even anonymously, that they were absent for family reasons. Such admissions were thought to be risky in unsupportive climates

As work environments change and employers become more savvy about work-family issues employees, now safe when speaking up, may begin to exaggerate their problems in order to ensure a management response. Changes in employee expectations over time may yield a clearer picture of the problem, but not of the solution. As this report has shown, more evaluations of work-family programs can help strengthen the effectiveness of company responses. If companies really want to know the costs and benefits of family-supportive programs, they may not only need to become more family-supportive, but more research friendly as well.

Related Publications

Work and Family Policies: The New Strategic Plan, Research Report No. 949, 1990

Relocating Two-Earner Couples: What Companies Are Doing, Research Bulletin No. 247, 1989

Flexible Staffing and Scheduling in U.S. Corporations, Research Bulletin No. 240, 1989

A Life Cycle Approach to Family Benefits & Policies, *Perspectives* No. 19, 1989

The Countdown on Family Leave, *Perspectives* No. 18, 1989

Family-Supportive Policies: The Corporate Decision-Making Process, Report No. 897, 1987

Corporations and Families: Changing Practices and Perspectives, Report No. 868, 1985

Corporate Financial Assistance for Child Care, Research Bulletin No. 177, 1985

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R4105-78,10F 9/91

The Conference Board

Report Number 974

Employee Buy-In To Total Quality

Major U.S. firms report progress on:

- *Commitment: leaders, managers, workers*
- *Involvement: communications, training and teams*
- *Reinforcement: recognition and reward*
- *Baldrige Award-readiness*

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Printed in the U.S.A.
ISBN No. 0-8237-0421-1

Employee Buy-In to Total Quality:
A Corporate Progress Report

by Kathryn Troy

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About the Author

A Senior Research Associate in the Quality and Productivity Program, Kathryn Troy is the author of 16 Conference Board Reports. Her most recent include: *Quality Training: What Top Companies Have Learned; Rethinking Employment Security;* and *Employee Communications: New Top Management Priority.* She has been with the Conference Board since 1977, and is also responsible for corporate communications research.

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Author's Acknowledgment

The author would like to recognize Deanna Cinelli, Research Administrative Assistant in the Quality and Productivity Program, for her work in preparing tables for this study, and for analyzing Employee Suggestion Programs and preparing the box on page 27.

From the President

Pivotal to the success of a total quality management process is the willingness of workers and managers to adopt new ways of thinking and doing. Today's corporate leaders are searching for the most effective methods to engender and sustain high levels of employee commitment to customer satisfaction and continuous improvement. At the same time, senior managements are adopting human resource policies and practices which demonstrate their resolve to "go the course" with total quality, giving this process adequate time to mature. This study examines how major firms are accomplishing these tasks, how they assess their progress to date, what the obstacles have been, and what factors contribute to successful implementation of a total quality management process.

The Conference Board wishes to thank the executives who participated in this study for their generosity in providing data and observations about the trials and successes accompanying their transition from traditional management to a total quality process. Their insights will provide valuable guidance to those who have taken, or are about to undertake, a similar journey.

PRESTON TOWNLEY
President and CEO

Executive Summary

Practitioners of Total Quality Management (TQM) encourage all employees to listen to internal and external customers and to commit themselves to continuous improvement of business processes, products and services. Attention to quality predates the 1980s. But that decade was the crucible, forging corporate America's current view of TQM as a competitive wedge. The 158 firms responding to the questionnaire for this study were drawn from a universe of the nation's 1,000 largest firms. The typical participant instituted a quality management process in 1986, although a few respondents report a quality process that began in the 1970s or earlier.

For most firms, adoption of a TQM process requires a major shift in the thinking and behavior of workers and managers alike. This study takes a mid-course snapshot of companies' progress toward igniting and sustaining employee involvement in TQM.

Baldrige Award Contenders

Respondents gauge themselves as half way toward qualifying for the Malcolm Baldrige National Quality Award. In general, manufacturing firms instituted a TQM process well ahead of service firms; and manufacturers tend to rate themselves as closer to Baldrige Award-readiness. Half the manufacturers have had TQM in place for 5 years or more compared to 30 percent of service firms. A third of manufacturers say they are at least three-quarters of the way to being award-ready, compared to a quarter of service firms.

Leadership is a key Baldrige category, and executives in those firms closest to award-ready status report that they can rely on strong backing from the top of the organization. Seventy percent or more of the award-ready companies receive such support, compared with only about 25 percent of those firms rating themselves less than half way to meeting award criteria.

Worker and Middle-Management Support

Overall, participants report at least moderate levels of success with obtaining employee buy-in (i.e., commitment) to TQM. Fifty percent say that they have been moderately successful and nearly 30 percent report high levels of progress. Firms' satisfaction with their progress tends to grow as the TQM process matures.

Middle managers and first-line supervisors are most likely to withhold support for the TQM process, respondents report. Less than a quarter of firms can rely on high levels of support from these groups. In contrast, participants indicate that about half of the top ranks of management and nearly half of nonmanagerial workers are strongly supportive.

Strong leadership at the top equates with greater satisfaction with employee commitment as well as with Baldrige award-readiness. At least 70 percent of the firms that are most satisfied with the progress they have made toward employee buy-in report substantial backing at the top. These companies also can count on high levels of support at each succeeding layer. Among firms that are least satisfied with their progress, only 30 percent can count on upper layers of management for major support, and less than 10 percent have strong backing from middle managers and first-line supervisors.

Involving Employees in TQM

Most firms use employee communications, training, short-term teams and employee feedback devices such as surveys and suggestion programs to spark employee involvement in the TQM process. But those respondents who are most satisfied with their progress place greater emphasis on planned communication campaigns and quality review meetings with top management, clock more training hours, and are progressing toward use of long-term teams.

Respondents stress that all of the involvement mechanisms listed above are necessary and interdependent. However, periodic quality review meetings with top management underscore the importance of TQM, and training and teams are critical to launching and sustaining an involvement process. Training is important for culture change and skill development, and short-term teams promote immediate application of problem-solving techniques and reinforcement of group processes. Long-term teams sustain TQM and institutionalize the continuous improvement process.

Awards, Performance Measurement and Reward

To reinforce behavior and results essential to the TQM process, respondents report extensive use of quality award programs. Eighty-five percent give awards to individuals and teams, and 75 percent offer unit or plant-wide awards. Noncash awards prevail, but slightly more than 30 percent offer both cash and noncash to individuals and teams and 15 percent make both available to units or plants. Few firms offer only cash awards, but service firms are more likely to offer both options than are manufacturers.

Linking quality achievement to performance appraisal, compensation and promotion may be the ultimate test of top management's commitment to TQM. Less than half of the respondents supplying data on this practice tie compensation to promotion, but this link becomes more prevalent as the TQM process matures. Nearly 60 percent link quality to compensation and 75 percent tie quality to performance appraisal.

Overall, responses suggest that winning employee buy-in to TQM may be difficult, but can be accomplished. Participants report a wide range of successes using the TQM process. These include quantitative results in numbers of employees trained, numbers of teams meeting and measuring results, reduction in the cost of poor quality and improved customer retention, as well as qualitative gains through better communication, lower absenteeism, better supplier and labor relations, and increased employee motivation.

Method

This study targeted major corporations that have a program for managing quality in order to determine 1) how they are involving employees in the quality process, and 2) how successful their efforts have been. Managing for total quality differs from earlier corporate quality efforts such as inspection, statistical quality control or quality assurance in that it:

- is the responsibility of all employees, rather than a particular department or function;
- is aligned to needs of internal and external customers; and
- requires a continuous improvement process, applied to all business functions, products and services.

The term total quality management (TQM) is used throughout the discussion in this report. Among practitioners in quality management it is not the *only* term used, but is commonly applied when describing the current stage in the development of the corporate quality movement.* Characteristics of TQM, as it is used in this study, are reflected in the criteria for the Malcolm Baldrige National Quality Award (see Exhibit 2 on page 16).

Questionnaires for this study were mailed during the Fall of 1990 to 1,000 firms which included the 500 largest manufacturing and 500 largest service firms listed in the 1990 *Fortune* magazine ranking. A few companies of smaller size known to have a TQM process were also included. The surveys were addressed to the company's quality executive, where that name was available. The quality process is cross-functional and much of the data sought was human-resources related, thus in those firms where no quality executive was identifiable, the survey was sent to the human resources executive. In many cases, the human resources executive forwarded the survey to the quality function, and 70 percent of respondents have "quality" in their title. Although quality is everyone's responsibility, most of these firms have a designated individual or department to spearhead and/or coordinate the effort.

Responses were received from 192 firms, of which 158 reported that they had a process for managing quality (see Tables 1A and 1B). Another 13 firms will institute a process by 1992. The typical respondent among the 158 firms indicated that the company began the quality management process in 1986 and was about half way to meeting Baldrige Award criteria. Manufacturers are generally acknowledged to have instituted quality management earlier than service firms, and manufacturers account for 63 percent of the 158 responses. Tables 2 and 3 profile respondents by number of employees and financial size.

Firms that lacked a corporate-wide quality management process were asked to forward the request to a specific division or unit, if the process was in place there. Responses from parent companies constitute the majority of responses, and this is reflected in the size of the employee population, which averaged about 12,000. Tables 4A and 4B profile respondents from parent companies and other units (e.g., subsidiaries, divisions, etc.) by industry and employee size.

Study data are intended to reflect central tendencies among large U.S. firms that have a total quality management process in place. The TQM process is still in its initial stages in many of these firms, and several respondents indicated that their replies were "best estimates." In some report tables, especially in the service industry, the number of responses is small and inferences are necessarily tentative. Nevertheless, the data are valuable as a baseline which further Conference Board research will expand and refine.

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* For additional information on the evolution of the corporate quality movement, see David A. Garvin, "Managing Quality." *The Free Press*, New York, 1987.

Method Table 1A: Number and Percent of Respondents With Quality Management Process (Grouped by Industry)

	All Survey Respondents	*No. with Quality Mgmt. Process*	*% with Quality Mgmt. Process*
Manufacturing:			
Durable Goods	57	55	96%
Nondurable Goods	49	44	90
Total Manufacturing	106	99	93
Service:			
Financial Services	35	20	57
Other Services	51	39	76
Total Services	86	59	69
Total (All Companies)	192	158	82%

Method Table 1B: Industry Distribution of Respondents With Quality Management Process (Grouped by Industry)

	Number	*Percent*
Manufacturing:		
Durable Goods	55	55%
Nondurable Goods	44	44
Total Manufacturing	99	63
Service:		
Financial Services	20	34
Other Services	39	66
Total Services	59	37
Total (All Companies)	158	100%

Method Table 2: Size of U.S. Employee Population in Participating Companies (Grouped by Industry)

	Number With Quality Management Process	*U.S. Employee Population* 2,000 or Less	2,001-5,000	5,001-15,000	15,001-30,000	30,001+
Manufacturing:						
Durable Goods	55	6%	14%	33%	22%	25%
Nondurable Goods	43	16	26	26	16	16
Total Manufacturing	98	11	19	30	19	21
Service:						
Financial Services	20	20	20	30	20	10
Other Services	38	11	8	34	18	29
Total Services	58	14	12	33	19	22
Total (All Companies)	156	11%	17%	31%	19%	22%

Method Table 3: Financial Size of Participating Companies (Grouped by Industry*)

Financial Size in billions (1989)

	Sales (N= 111)				*Assets (N=21)*		*Operating Revenue (N=24)*	
	Under $1	*$1-5*	*$5-10*	*$10 & Over*	*Under $6*	*$6 & Over*	*Under $3*	*$3 & Over*
Manufacturing:								
Durable Goods	27%	38%	22%	13%	–	–	–	–
Nondurable Goods	32	41	11	16	–	–	–	–
Total Manufacturing	29	39	17	14	–	–	–	–
Service:								
Financial Services	–	–	–	–	40%	60%	–	–
Other Services	50	8	33	8	100	–	38%	62%
Total Services	50	8	33	8	43	57	38	62
Total (All Companies)	32	36	19	14	43	57	38	62

* Financial services firms were asked for assets; transportation and utilities firms for operating revenues; and all others for sales revenue.

Method Table 4A: Participation by Parent Companies and Business Units/Subsidiaries (Grouped by Industry)

	Number of Companies	*Parent Company*	*Company Subsidiary/Unit*	*Company Without Subsidiary/Unit*
Manufacturing:				
Durable Goods	55	65%	33%	2%
Nondurable Goods	44	77	21	2
Total Manufacturing	99	71	27	2
Service:				
Financial Services	20	55	45	0
Other Services	39	56	33	10
Total Services	59	56	37	7
Total (All Companies)	158	65%	31%	4%

Method Table 4B: Participation by Parent Companies and Business Units/Subsidiaries
(Grouped by Size of Employee Population)

	Number of Companies	*Parent Company*	*Company Subsidiary/Unit*	*Company Without Subsidiary/Unit*
Number of U.S. Employees				
2,000 and Less	18	39%	56%	6%
2,001 – 5,000	26	58	35	8
5,001 – 15,000	48	65	31	4
15,001 - 30,000	30	70	27	3
30,001 +	34	82	18	0
Total	156	65	31	4

Who's Ready for Involvement?

Today's corporate workers and managers must grapple with a major transformation in the way in which they operate. The protocols of the manager-subordinate relationship are shifting. Companies are discarding organization charts or turning them upside down, and are reassessing guidelines for performance measurement and rewards. More workers are taking part in job-related decision-making and priority setting. Work rules and schedules are gaining a new flexibility.

Such change is welcomed by some employees, but resisted by others. To shape the corporation into a viable competitor for the 1990s marketplace, top management must spark the involvement of all employees—managers and workers—both in the process of change and its outcomes. Buy-in, or commitment to change, participation, ownership and empowerment have become watchwords in the workplace of the 1990s.

The Involvement Factor

Half of the respondents to this study report that they have been moderately successful in engaging managers and workers in a major internal change—the introduction of a total quality management process (TQM). Firms in the United States began adopting TQM in the late 1970s. The trend quickened during the 1980s, often in response to competitive threats from foreign companies. Only 16 percent of survey respondents instituted the TQM process prior to 1983, while nearly 60 percent have done so since 1986. Manufacturers of durable goods report the oldest TQM process, firms delivering non-financial services, report the newest (see Table 1).

Managing for total quality requires that all employees identify their internal and external customers and attune themselves to satisfying the needs of these constituencies. Employees commit themselves to a goal of continuous improvement, striving to do each work task or process the right way the first time and every time. As a quality culture takes hold, employees are encouraged to participate in decisions affecting their work, and teams become the typical organizational unit. Functional lines are blurred as workers and managers cut across traditional boundaries and focus on work as a process.

Such a departure from traditional workplace organization and practice generally requires a long-term commitment to ensure its success. For example, the top quality executive at Corning Incorporated traces his firm's program through three stages: "Start-up," the

Table 1: Age of TQM Process (Grouped by Industry)

		TQM in Place for:			
	Number of companies	*8 years or more*	*5-7 years*	*2-4 years*	*1 year or less*
Manufacturing	92	18%	33%	33%	16%
Durable Goods	51	27	31	31	10
Nondurable Goods	41	7	34	34	24
Service	54	13	17	41	30
Financial Services	17	23	23	47	6
Other Services	37	8	13	39	40
Total (All Companies)	146	16	27	36	21

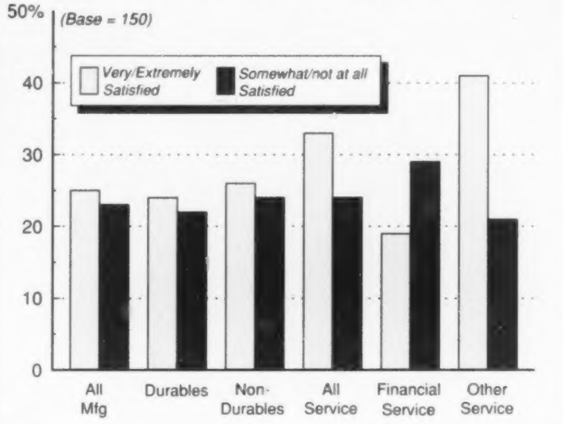

Chart 1
Progress Toward Involving Employee in TQM

first stage, began in 1983 and extended through 1986. It had an inward focus on self-examination. "Breakout," the second stage, occurred when the company reached out to form partnerships with customers, coworkers and suppliers; it extended from 1986 to 1989. The firm now sees itself in a "world class" third stage, as it focuses on best practices, aspires to delighting the customer and moves beyond short-term teams to self-managed teamwork[1] (see Exhibit 1).

Given a multistage timetable for fully realizing TQM, it is not surprising that more than 20 percent of the respondents are only "somewhat" or "not at all" happy with their progress toward involving employees in the process. Manufacturers of durable and nondurable goods share similar assessments of progress-to-date, but financial service firms are much less likely to be highly satisfied than are other service providers (see Chart 1). Among firms with a process of seven-years-old or younger, the longer the TQM process has been in place, the greater their success in involving employees. However, the group of firms with the oldest TQM process—8 years or more—diverge from this pattern (see Table 2 and box above).

Out of Steam?

Part of the explanation for the variation from the pattern of satisfaction among firms with the oldest TQM processes may be tied to the make-up of this category. Made up of 20 firms, it is the smallest and, based on age of the quality management process, the most heterogeneous of the groups. Some date their quality process back to the 1970s and beyond. The group may simply be atypical.

However, since quality practitioners sometimes suggest that older TQM programs can run out of steam, the experience of seven firms encountering negative attitudes may be instructive. Comments from these firms do not vary greatly from those by executives whose TQM implementation is more recent. The significance may lie in the fact that certain problems *persist*.

In some of the seven firms, the difficulties arose from special circumstances such as downsizing, a need for capital and new equipment, or union difficulties. But several companies report that workers and employees continue to sense a dichotomy between the short-term focus on profit and results and long-term TQM goals. "There are mixed messages," says a manufacturer. "Management is saying we want more production and 'oh, by the way' quality." Another obstacle is a lack of understanding of the need for a new way of working. "Our company has been extremely successful for over 50 years, so there is a strong reluctance to change" notes a respondent from a durable goods producer whose TQM process started in 1982.

Table 2: Involving Employees in TQM: Satisfaction With Progress (Grouped by Age of TQM Process)

		Level of Satisfaction		
	Number of companies	*High/Very High*	*Moderate*	*Low/Very Low*
Years TQM Process in Place				
8 years or more	20	30%	35%	35%
5 – 7 years	36	36	50	14
2 – 4 years	50	26	58	16
1 year or less	27	22	48	30
Total (All Companies)	133	29%	50%	21%

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[1] David B. Luther, "Continuous Quality Improvement: The Ever-Widening Network," *Total Quality Management*, The Conference Board, Report No. 963, 1991.

Exhibit 1: Corning Incorporated—TQM Milestones

Since the past is visualized most readily in important events or actions, we can use a series of them to trace where we've been:

A **Quality Institute**, established in Corning, New York, opened its doors on a January weekend in 1984. The company's senior executives were in the first class. The Institute served as the company's central resource for a worldwide training network with facilities in 58 locations, teaching in six languages.

Quality Milestones: The end of 1984 saw the first of the Quality Milestones, annual two-day meetings in Corning, New York, in which Quality Improvement Teams from all locations share experiences and ideas. Starting in 1988, external customers were invited as well.

Climate Survey: In 1984, a Corporate Climate Survey asked all of Corning's North American employees for the first time what they thought about their jobs, their company, and their futures. Other Climate Surveys followed—as did management's response to issues raised, including organizational changes to encourage employee involvement in planning and decision-making, a performance-oriented compensation system, and more extensive career planning.

Our Values: A 1985 corporate statement of Values, distributed and discussed throughout the company, listed Quality first. (The other Values are Integrity, Performance, Leadership, Technology, Independence and The Individual.)

The Vital Few: In 1985, the Management Committee introduced the concept of the Vital Few. Implemented at the unit level, a Vital Few concentration helps identify rank, and eliminate error sources. The chairman emphasized it this way: "Decide on your top three vital issues. Pick one. Remove it. Permanently."

Goals: 1986 marked the establishment of three special five-year goals. They are:

- By 1991, increase employee job training for meeting job requirements to a company-wide average of five percent of time worked.
- By 1991, achieve a 90 percent reduction in the most critical errors preventing the attainment of Total Quality in products, processes and services.
- By 1991, the first-day quality of new goods and services will meet customer requirements and will be equal to, or better than, the quality of competitive products or the quality of the Corning products being replaced.

National Quality Month in 1987 was chaired by Corning's chairman marking the first major national exposure of Corning as a company using quality as a specific competitive strategy.

Delighting the Customer: 1987 also brought about a needed insight. Tom Peters, author of *In Search of Excellence*, spoke at the company's Quality Milestone and asked if we were "delighting the customer." Some soul-searching told us "no"—we were focused too heavily on our internal processes. A major change in emphasis began.

By 1988, Total Quality skills were accumulating and participation soaring. The company-wide focus on customer satisfaction and customer-driven results sharpened, and the linchpins of continuous quality improvement began to move into place. At a glance there were:

Benchmarking: the process of rigorously comparing parts or all of a Corning product, service, or function against the best in the marketplace.

Process Management Approach: a technique for improving the management of processes in non-manufacturing environments. The approach helps identify the boundaries of an administrative process, its inflow and outflow, and its measures of effectiveness.

Service Quality (Customer Action Planning System): a series of workshops teaching that the quality of service that accompanies a product is as important as the product itself. They stress reliability, responsiveness, and even empathy—"experiencing the feelings of the customer."

Customer/Supplier Partnerships: a new way to understand and meet customer requirements. In structured meetings, teams of Corning employees and customers or suppliers meet to describe, debate, understand, and reach agreement on what the requirements are.

Union-Management Quality Reviews: sessions involving approximately 15 different employees each time, led by teams of union officials and Corning managers. The purpose is to hear and understand what our people say about our progress toward Total Quality.

Workplace Partnerships: a mutual recognition by Corning and the American Flint Glass Workers' union that their shared objectives cannot be achieved unless a true partnership exists. While endorsing the continuation of their traditional collective bargaining relationship, the two parties in early 1989 forged a new partnership. It states, in part, "In fostering this process, trust, communication and respect for the dignity of the individual are absolutely essential."

The Malcolm Baldrige National Quality Award: awarded each year by the President to a maximum of six companies in the U.S. for quality excellence. Corning's Telecommunications Products Division, with some of its complex optical-fiber processes running at zero parts per million in defects, was the company's entry in 1989, and received a site visit by senior examiners. The award's criteria are now Corning's template for world-class quality, corporate-wide.

Source: *Corning Total Quality Digest.*

Buying In and Holding Out

Survey respondents were asked to what degree nonmanagers and managers have been supportive to TQM and whether negative attitudes in either group were an obstacle. Groups at the top and bottom of the organization—the most senior executives and nonmanagement employees—are seen as most supportive. Between 45 and 55 percent of respondents indicate that support from these groups is high. Nevertheless, those at the top are not spared criticism: "Senior executives resist change for themselves, protect turf, and think others are the ones who need change," says a participant from a utility.

Support at the Top

Survey results suggest that high levels of support at the top of the organization can have a major impact. Of those respondents who are "very/extremely" satisfied with their progress toward involving employees, nearly 90 percent say that top management (e.g., CEO, COO, executive committee members) support is high. Roughly 70 percent say support is high at the next level (e.g., senior managers, vice president, senior vice president). Those who are only "somewhat" or "not at all" satisfied offer a marked contrast: Only about 30 percent have significant backing from top management and just 25 percent have such support from senior managers (see Table 3). Not surprisingly, less than 10 percent of the dissatisfied group report strong support for TQM at the next two layers, middle management and first-line supervisors, and only 25 percent have an enthusiastic response from workers. Those reporting strong support at the top have a better record with each succeeding layer.

Resistance at the Middle

Although over half of the respondents consider middle managers and first-line supervisors at least moderately supportive, buy-in among these groups is a major obstacle to implementing TQM in many firms. Only about 20 percent of manufacturers can count on strong support from the middle layers of the organization. Financial service firms are least likely of all industry groups to have middle managers who are "highly" supportive of TQM. Other service firms (e.g., utilities, retailers, transportation) appear to have a less severe problem with these managers (see Charts 2A and 2B). Respondent comments suggest some of the obstacles:

- "Middle managers are initially uneasy in the new management style (preventing problems not solving them)."

  — *insurance company vice president*

Table 3: Satisfaction With Progress Toward Involving Employees in TQM (Grouped by Level of Support from Managers and Nonmanagers)

A. Respondents *Very/Extremely Satisfied* (N=40)

Level of Support For TQM is:	*High*	*Moderate*	*Low*
Among:			
Top management	87%	13%	0%
Senior managers	68	28	4
Middle managers	37	53	10
First-line supervisors	25	60	15
Nonmanagers	60	36	4

B. Respondents *Moderately Satisfied* (N=70)

Level of Support For TQM is:	*High*	*Moderate*	*Low*
Among:			
Top management	47%	43%	10%
Senior managers	41	54	6
Middle managers	17	62	20
First-line supervisors	30	56	14
Nonmanagers	54	40	6

C. Respondents *Somewhat/Not at All Satisfied* (N=32)

Level of Support For TQM is:	*High*	*Moderate*	*Low*
Among:			
Top management	29%	39%	32%
Senior managers	25	34	41
Middle managers	6	47	47
First-line supervisors	9	50	41
Nonmanagers	26	58	16

- "There is a lack of middle management commitment; quality must be embedded in performance appraisal."

  — *a banker*

- "Middle managers are being asked to review the values of their department and their jobs. They have *other* problems to contend with."

  — *a quality executive in a chemical firm*

First-line supervisors also lack enthusiasm for TQM—among other concerns, they find "time and resource management difficult," notes the quality director of a utility. Overall, the issue is not one of control, but a "resistance to a perceived (and often real) loss of power," says the senior vice president, quality, at a transportation service firm.

Accompanying lukewarm support among some managers are negative attitudes and general skepticism

Chart 2A

Firms Reporting High Level of Support for TQM

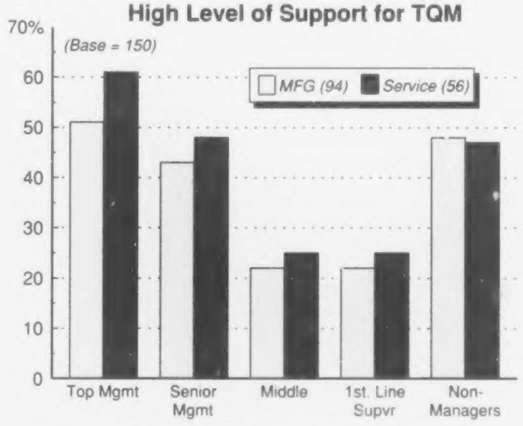
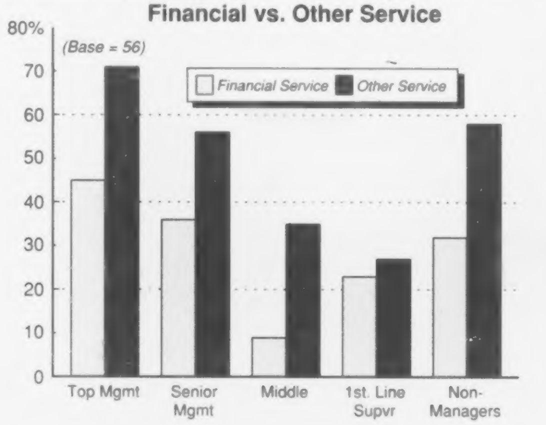


Chart 2B

Firms Reporting High Level of Support for TQM Financial vs. Other Service



about top management's motives and long-term resolve. Forty percent of respondents report that negative attitudes toward quality hamper implementation to a great or very great degree. This is the case in more than half of firms manufacturing nondurable goods. Says a food company executive: "There is skepticism about whether we really want to change. There are turf issues or conflicting goals between entities within the organization. Internal systems don't drive the effort."

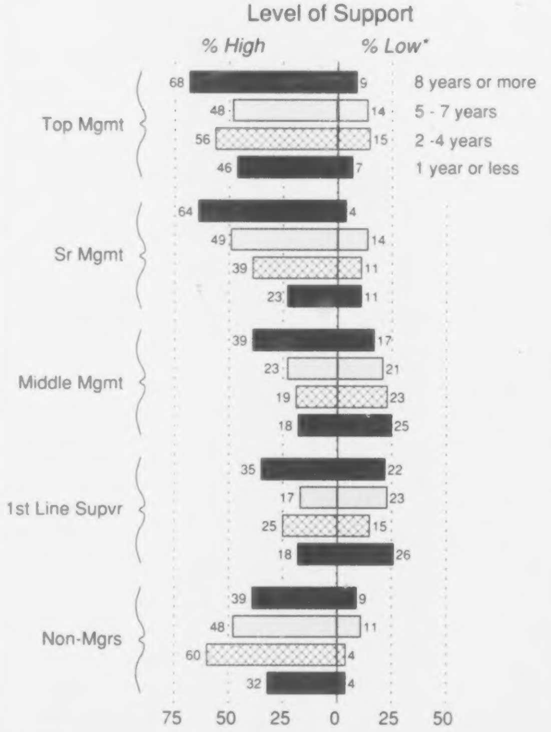
Although nonmanagerial workers may not embrace TQM immediately, respondents in almost half the firms report that they can count on a high level of support from this group. Only about 15 percent of firms report that negative attitudes among nonmanagement employees have a major impact on implementing TQM. To the extent that such attitudes exist, they are characterized as the "this too shall pass" or "TQM is the program of the year" syndrome. Top and middle managers tend to become more supportive over time, but as Chart 3 indicates, the passage of time does not guarantee the acceptance of TQM at every level. The pattern among nonmanagers and first-line supervisors is uneven. In fact, results from the oldest TQM programs hint at a slightly more pronounced tendency toward negative attitudes among both managers and nonmanagers than is the case when TQM is of newer vintage (see box on page 12). The older group was also somewhat less satisfied with its progress in involving employees in TQM (see Table 2).

Keeping Score

If success in promoting buy-in to TQM requires more than the passage of time and support from the top, what other factors produce results? Respondents were asked about the steps they have taken to involve employees in TQM and to reinforce employees' quality achievement. Their responses are analyzed in subsequent parts of this report. The factors examined are communication, training, team participation, employee recognition and performance measurement/reward. These align with key criteria in the "leadership" and "human resource utilization" categories used by examin-

Chart 3

Level of Support for TQM and Age of Process



*Companies responding "moderate" are excluded.

ers for the Malcolm Baldrige National Quality Award (see Exhibit 2).

A Self-Assessment

Respondents were asked for a self-assessment of their progress toward Baldrige Award-readiness. Using past winners of the award to mark the 90 to 100 percent level, or "world class," participants scored themselves on a scale of 1 to 100. Several respondents noted that it was difficult to supply an accurate self-rating since company divisions started TQM at different times, and experienced varying degrees of success. Not surprisingly, a third of firms with company-wide TQM see themselves in the top quartile, in contrast to about a fifth of those with less comprehensive efforts.

Many respondents report using the Baldrige criteria as an internal assessment tool, but some stressed that they do not consider themselves ready to apply for the award. "Our focus will be to achieve our corporate quality goals; the award is a far distant secondary goal," a respondent from a service firm said. Several firms noted that at least one corporate division may be ready to apply soon, while other companies report that they have already applied and have found the feedback helpful.

Overall, firms with more mature TQM processes tend to give themselves higher ratings. Half of the firms with a TQM process 5-to-7-years-old gauge themselves as at least three quarters of the way to award status, as do 40 percent of firms with the oldest TQM process. Only about 10 percent of the those with the most recent TQM process make this claim (see Table 4).

Firms in the manufacturing sector and companies with very large employee populations are more likely to report award-readiness. Among manufacturers, a third say they are in the top quartile, compared to a quarter of service firms (Chart 4A). Three-quarters of producers of durable goods see themselves as at least half way toward qualifying, while nonfinancial service firms are the most likely to place themselves below the halfway

Exhibit 2

Malcolm Baldrige National Quality Award

	1991 Examination Categories/Items		*Maximum Points*
1.0	**Leadership**		**100**
1.1	Senior Executive Leadership	40	
1.2	Quality Values	15	
1.3	Management for Quality	25	
1.4	Public Responsibility	20	
2.0	**Information and Analysis**		**70**
2.1	Scope and Management of Quality Data and Information	20	
2.2	Competitive Comparisons and Benchmarks	30	
2.3	Analysis of Quality Data and Information	20	
3.0	**Strategic Quality Planning**		**60**
3.1	Strategic Quality Planning Process	35	
3.2	Quality Goals and Plans	25	
4.0	**Human Resource Utilization**		**150**
4.1	Human Resource Management	20	
4.2	Employee Involvement	40	
4.3	Quality Education and Training	40	
4.4	Employee Recognition and Performance Measurement	25	
4.5	Employee Well-Being and Morale	25	
5.0	**Quality Assurance of Products and Services**		**140**
5.1	Design and Introduction of Quality Products and Services	35	
5.2	Process Quality Control	20	
5.3	Continuous Improvement of Processes	20	
5.4	Quality Assessment	15	
5.5	Documentation	10	
5.6	Business Process and Support Service Quality	20	
5.7	Supplier Quality	20	
6.0	**Quality Results**		**180**
6.1	Product and Service Quality Results	90	
6.2	Business Process, Operational, and Support Service Quality Results	50	
6.3	Supplier Quality Results	40	
7.0	**Customer Satisfaction**		**300**
7.1	Determining Customer Requirements and Expectations	30	
7.2	Customer Relationship Management	50	
7.3	Customer Service Standards	20	
7.4	Commitment to Customers	15	
7.5	Complaint Resolution for Quality Improvement	25	
7.6	Determining Customer Satisfaction	20	
7.7	Customer Satisfaction Results	70	
7.8	Customer Satisfaction Comparison	70	
TOTAL POINTS			**1000**

Source: *1991 Guidelines*, Malcolm Baldrige National Quality Award.

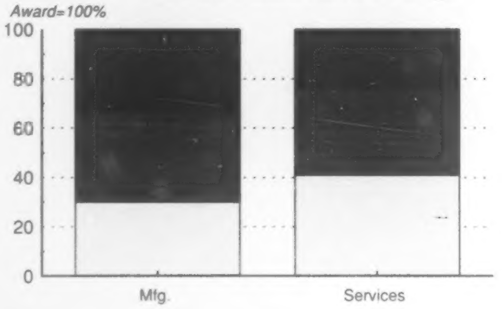
Table 4: Baldrige Award Self-Rating (Grouped by Age of TQM Process)

		Self-Rating on Baldrige Award-Readiness		
	Number of Companies	*Less than half way*	*Half to 75% of way*	*Almost there (75-100% of way)*
Years TQM Process in Place				
8 years or more	22	9%	50%	41%
5 – 7 years	35	14	34	51
2 – 4 years	48	50	31	19
1 year or less	28	54	36	11
Total (All companies)	133	35%	36%	29%

Chart 4A

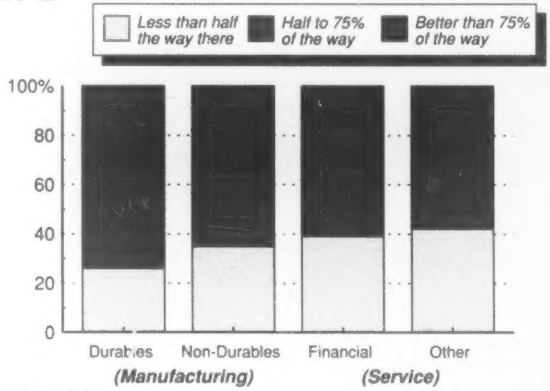
Progress Toward Baldrige Award

Manufacturers Have an Edge



Note: Base=144 Companies

Chart 4B *



* By Industry Subgroup

mark (Chart 4B). Based on employee size, the largest firms report more progress than the smallest, but there is some variation in the patterns among the midsize firms (Table 5). Respondents' self-assessment, as well as the number of years their TQM process has been in place, are key indicators used in the analysis of firms' progress toward promoting buy-in presented in subsequent sections of this report.

Table 5: Baldrige Award Self-Rating (Grouped by Size of Employee Population)

		Self-Rating on Baldrige Award-Readiness			
	Number of Companies	*Median Baldrige Self-Rating*	*Less Than Half Way*	*Half to 75% of Way*	*75-100% of Way*
Number of Employees					
2,000 or less	16	40%	56%	25%	19%
2,001 – 5,000	23	50	35	35	30
5,001 – 15,000	44	58	29	41	29
15,001 – 30,000	27	50	44	30	26
30,001 or more	32	70	15	44	40
Total	142	50	33	37	30

Creating an Involvement Mechanism

Anecdotal comments from corporate quality executives reinforce study findings: Successful implementation of TQM is usually initiated at the top of the organization and requires continuing top management involvement.[2] As the "roll out" of the TQM from the top cascades through intermediate management layers to workers, the objective is to persuade each level to take ownership of the process. Ultimately, TQM becomes part of the corporate culture. Company strategies for initiating TQM vary, but there are several tactics that are common to the implementation phase:

- Meetings of top managers are called to launch the process.
- Special communications are prepared to inspire managers and employees to inform them of the new organizational thrust.
- Training programs are organized to build quality awareness, stress customer satisfaction, and ultimately to teach problem solving, Pareto analysis, statistical process control and other quality tools.
- Teams and task forces are formed to engage managers and employees in the processes of identifying obstacles to TQM implementation and creating more effective ways to manage work processes, eliminate errors and institute a continuous improvement process.
- Surveys, focus groups and suggestion systems are used to stimulate bottom-up communication and to encourage employees and managers to offer new ideas and uncover problems. Communication audits may be carried out in order to better understand how managers and employees transmit and receive information—upward, downward and laterally.

Table 6 and Chart 5 show how participants in this survey launched their communications campaign for TQM and the involvement techniques they currently employ.

Based on respondents' Baldrige award self-rating, those firms scoring themselves at or above the halfway mark place more emphasis on planned use of communication media than do those in the lower half of the ranking. They are also more likely to have such involvement techniques as teams, periodic quality review

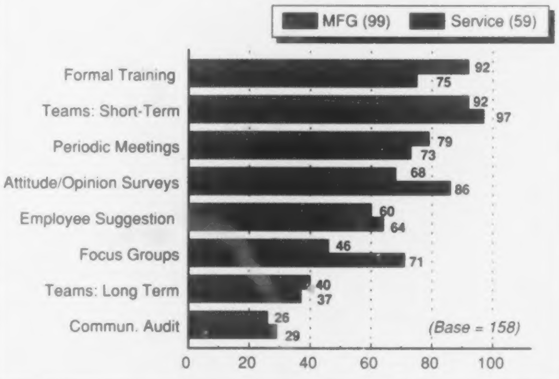
Table 6: Using Communications to Launch a Quality Process

Communications Vehicle		*Percent Using (N=158)*
Special meetings with top management		89%
Large scale	26%	
Small scale	37	
Both	36	
Company periodicals		85
Articles/features	57	
Special issue/edition	3	
Both	43	
Management letters/memos focused on quality		82
Company videos/slide shows		77
Other special brochures/ publications		44

Chart 5

Techniques for Involving Employees in TQM

(% Using Techniques)



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[2] Lawrence Schein, *The Road to Total Quality: Views of Industry Experts*, The Conference Board, Research Bulletin 239, 1990.

Table 7: Involvement Techniques and Baldrige Award Self-Rating (N=144)

	Baldrige Self-Rating		
	Almost there (75% or more)	*Half way to 75%*	*Less than Half way*
Periodic meetings with top management			
Have now*	93%	79%	52%
Plan soon	5	8	29
Formal training program			
Have now	93	83	78
Plan soon	–	14	20
Short-term teams			
Have now	93	88	86
Plan soon	–	4	12
Long-term teams			
Have now	60	42	20
Plan soon	12	36	41
Employee feedback:			
Surveys			
Have now	77	65	65
Plan soon	12	17	25
Communications Audits			
Have now	33	21	22
Plan soon	23	23	29
Focus groups			
Have now	65	54	37
Plan soon	7	10	18
Employee suggestion program			
Have now	65	65	45
Plan soon	16	15	26

* *Have in 1990; plan by 1993.*

meetings with top management, suggestion programs and other employee feedback devices (see Table 7). More than 90 percent of the firms placing themselves near Baldrige award-readiness have formal training and clock a median of 18 hours annually for managers and 10 for nonmanagers. This compares to 8 hours for managers and 7 for nonmanagers among firms less than half way to the Baldrige goal.

Communicating TQM

To dramatize top management's commitment to quality and the high priority it assigns to TQM, 90 percent of the firms use two-way communication—large and/or small group meetings—to initiate the change process. The first meeting might involve only the most senior managers. The objectives are to set TQM goals and strategies and to agree on what messages will be delivered throughout the organization.

The actual launch of TQM then takes place at a larger management meeting. Many firms take this opportunity to showcase presentations from top executives and quality experts. Videos are a popular start-up tool in three-quarters of the firms; often used to build quality awareness or outline the major steps in implementing TQM, videos may be featured at the kick-off meeting and then folded into a kit of materials for attendees. Managers bring the kit back to their units and in smaller meetings, introduce the process to their direct reports, who then carry the message to succeeding layers. Meeting strategies vary. Twenty-five percent of the firms run only large scale meetings; roughly 35 percent use only small scale meetings, and about the same proportion organize meetings of both sizes.

Print materials supplement and reinforce the launch of TQM. Fully 85 percent of respondents use the company periodical to deliver quality messages as part of the TQM roll-out. Of this group, nearly 60 percent depend on articles and features in the regular edition to deliver the quality message, but 40 percent use a special edition of the publication as well. Management letters and memos are part of the launch in over 80 percent of the firms, and about 50 percent of the respondents use other special brochures or print materials, such as posters.

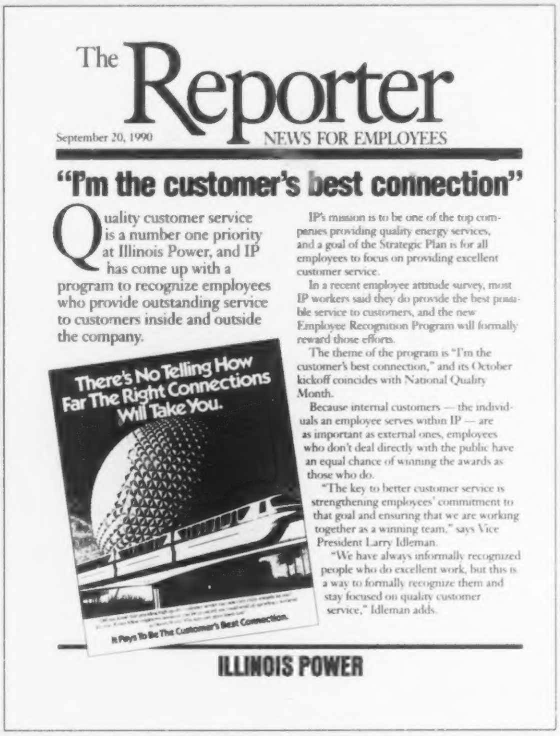
A Continuing Effort

Just as communication is crucial to the launch of the quality process, it is essential to sustaining and improving the quality process over time. Exhibit 3 on pages 20-21 illustrates the range of printed materials respondents have developed: special brochures, posters, newsletters and magazines are among them.

Respondents were asked what media were used to reach employees with a message about quality during a recent year (1989). The results point to print as the prime vehicle—90 percent use a company periodical to reach all employees, typically on a monthly basis. Nearly half the respondents use a periodical to target specific quality messages to management employees. Such communiques occur about 5 to 6 times annually. Three-quarters of the firms generate messages through management letters and memos, at the frequency of about 4 per year. A healthy majority (60 percent) develop one or two special publications or brochures annually. Videos are similarly popular and are also issued about twice annually. Companies are still developing the capability to communicate with employees electronically, but 20 percent of the firms include items on quality in their electronic newsletter on a monthly basis.

Face-to-face meetings are likely to be ongoing, as firms establish teams and task forces to implement TQM. Half the respondents also hold company-wide rallies or conferences—"Quality Day"—at least annually. Such meetings recognize employee achievement, reinforce the company's commitment to quality, and promote employee buy-in to the quality process.

Exhibit 3: Communicating With Employees



The Reporter

September 20, 1990 NEWS FOR EMPLOYEES

"I'm the customer's best connection"

Quality customer service is a number one priority at Illinois Power, and IP has come up with a program to recognize employees who provide outstanding service to customers inside and outside the company.

IP's mission is to be one of the top companies providing quality energy services, and a goal of the Strategic Plan is for all employees to focus on providing excellent customer service.

In a recent employee attitude survey, most IP workers said they do provide the best possible service to customers, and the new Employee Recognition Program will formally reward those efforts.

The theme of the program is "I'm the customer's best connection," and its October kickoff coincides with National Quality Month.

Because internal customers — the individuals an employee serves within IP — are as important as external ones, employees who don't deal directly with the public have an equal chance of winning the awards as those who do.

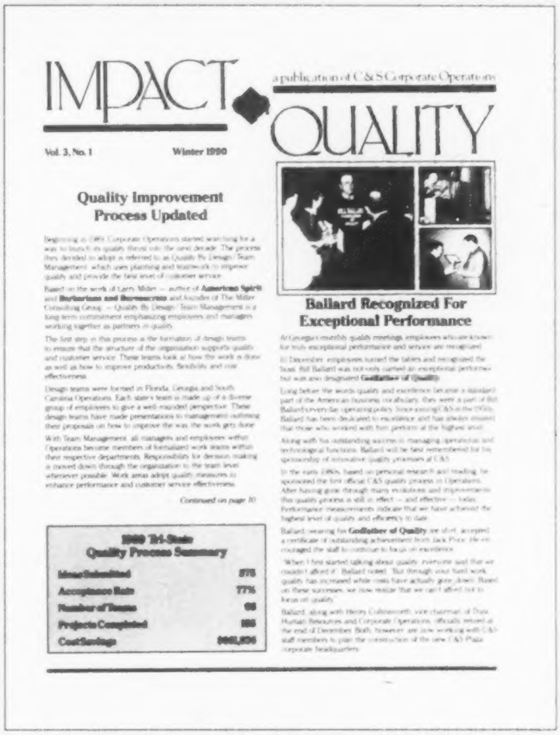
"The key to better customer service is strengthening employees' commitment to that goal and ensuring that we are working together as a winning team," says Vice President Larry Idleman.

"We have always informally recognized people who do excellent work, but this is a way to formally recognize them and stay focused on quality customer service," Idleman adds.

There's No Telling How Far The Right Connections Will Take You.
It Pays To Be The Customer's Best Connection.

ILLINOIS POWER

Illinois Power



IMPACT QUALITY

a publication of C&S Corporate Operations

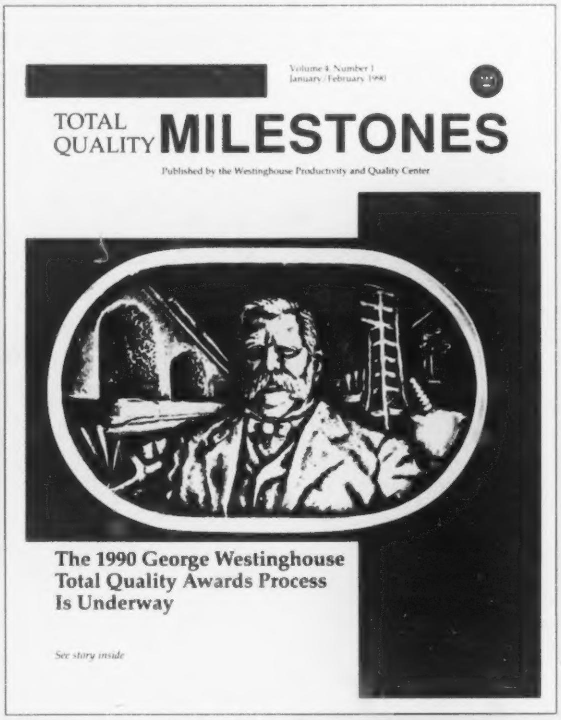
Vol. 3, No. 1 Winter 1990

Quality Improvement Process Updated

Continued on page 10

Ballard Recognized For Exceptional Performance

C & S Bank



Volume 4, Number 1
January/February 1990

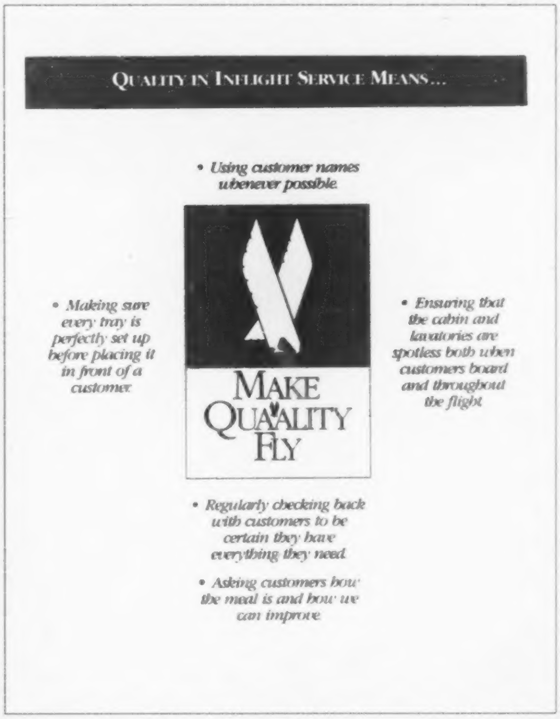
TOTAL QUALITY MILESTONES

Published by the Westinghouse Productivity and Quality Center

The 1990 George Westinghouse Total Quality Awards Process Is Underway

See story inside

Westinghouse Corporation

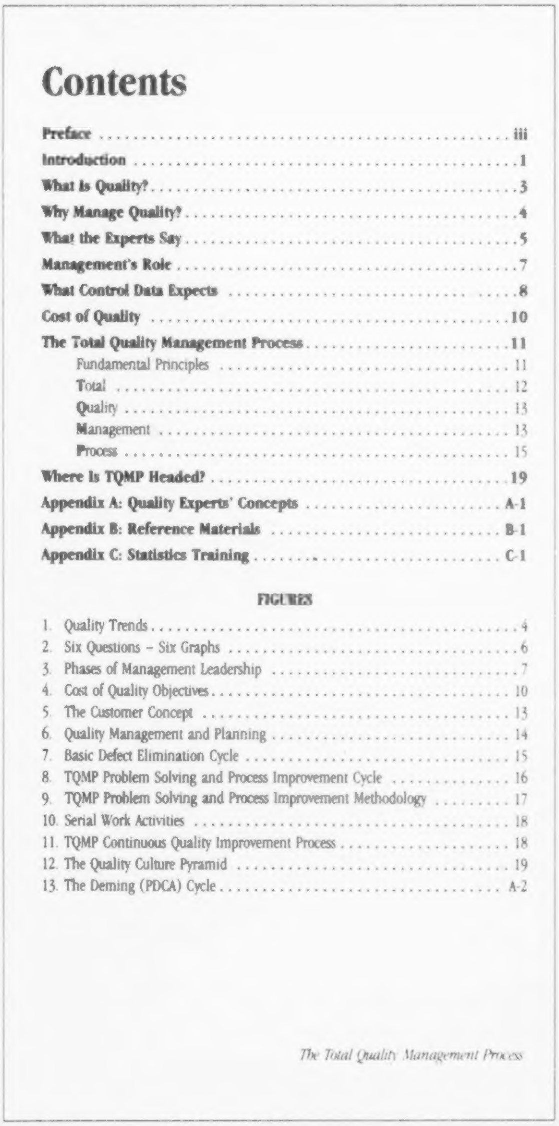


QUALITY IN INFLIGHT SERVICE MEANS…

- *Using customer names whenever possible.*
- *Making sure every tray is perfectly set up before placing it in front of a customer.*
- *Ensuring that the cabin and lavatories are spotless both when customers board and throughout the flight.*
- *Regularly checking back with customers to be certain they have everything they need.*
- *Asking customers how the meal is and how we can improve.*

American Airlines

Control Data Corporation



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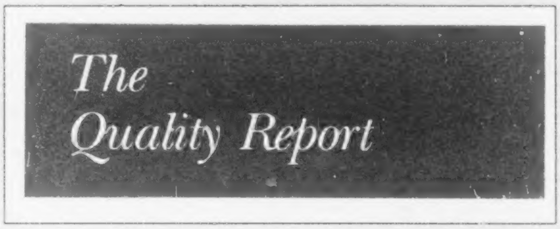
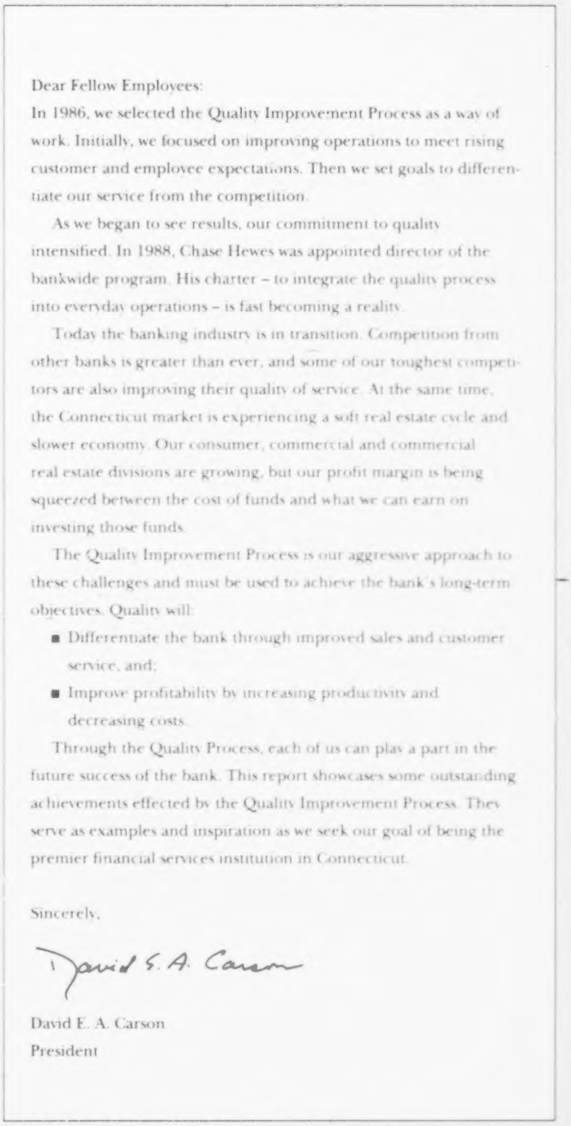
The Total Quality Management Process

People's Bank, Connecticut



The Quality Report



Dear Fellow Employees:

In 1986, we selected the Quality Improvement Process as a way of work. Initially, we focused on improving operations to meet rising customer and employee expectations. Then we set goals to differentiate our service from the competition.

As we began to see results, our commitment to quality intensified. In 1988, Chase Hewes was appointed director of the bankwide program. His charter – to integrate the quality process into everyday operations – is fast becoming a reality.

Today the banking industry is in transition. Competition from other banks is greater than ever, and some of our toughest competitors are also improving their quality of service. At the same time, the Connecticut market is experiencing a soft real estate cycle and slower economy. Our consumer, commercial and commercial real estate divisions are growing, but our profit margin is being squeezed between the cost of funds and what we can earn on investing those funds.

The Quality Improvement Process is our aggressive approach to these challenges and must be used to achieve the bank's long-term objectives. Quality will:

- Differentiate the bank through improved sales and customer service, and;
- Improve profitability by increasing productivity and decreasing costs.

Through the Quality Process, each of us can play a part in the future success of the bank. This report showcases some outstanding achievements effected by the Quality Improvement Process. They serve as examples and inspiration as we seek our goal of being the premier financial services institution in Connecticut.

Sincerely,

David E. A. Carson

David E. A. Carson
President

As Tables 8 and 9 suggest, there are some variations by company size and industry in how companies mobilize media to meet their quality communication goals. In general, the larger the employee population, the greater the likelihood that the firm will use one of the communications vehicles discussed above. Also, larger firms are more disposed to mobilize media as part of a planned campaign than are smaller companies. By industry, firms in durable goods and financial services are less likely to use videos as part of a campaign than are

Table 8: Communicating the Quality Message[a] (Grouped by Size of Employee Population)

	Communication Vehicles Used					
	Articles in Company Periodicals Target:		*Letters/Memos From Top Management*	*Videos/ Slide Shows*	*Special Publications/ Brochures*	*Company-wide Conferences/ Rallies*
	All Employees	*Managers Only*				
Use Vehicle (N=156)						
2,000 or less	83%	39%	67%	50%	44%	44%
2,001 – 5,000	85	27	69	54	61	35
5,001 – 15,000	96	48	79	65	56	50
15,001 – 30,000	93	50	73	63	60	57
30,001 or more	91	56	85	79	76	62
Use is Occasional[b]						
2,000 or less	73%	71%	83%	67%	50%	50%
2,001 – 5,000	54	57	94	50	69	22
5,001 – 15,000	50	65	84	58	48	29
15,001 – 30,000	50	60	77	42	67	47
30,001 or more	45	42	90	52	54	33
Use is Part of Planned Campaign[b]						
2,000 or less	27%	29%	17%	33%	50%	50%
2,001 – 5,000	45	43	6	50	31	78
5,001 – 15,000	50	35	16	42	52	71
15,001 – 30,000	50	40	23	58	33	53
30,001 or more	55	58	10	48	46	65

[a] Year covered is 1989.

[b] Base varies, but 142 companies responded.

Table 9: Communicating the Quality Message[a] (Grouped by Industry)

	Communication Vehicles Used					
	Articles in Company Periodicals Target		*Letters/Memos From Top Management*	*Videos/ Slide Shows*	*Special Publications/ Brochures*	*Company-wide Conferences/ Rallies*
	All Employees	*Managers Only*				
Use is Occasional[b]						
Manufacturing	46%	61%	84%	55%	59%	37%
Durables	51	64	87	59	59	39
Nondurables	40	57	79	50	59	35
Service	63	54	89	51	55	35
Financial	80	50	94	61	58	10
Other	53	56	87	46	52	50
Total (all companies)	52	58	86	53	57	36
Use is Part of Planned Campaign[b]						
Manufacturing	54%	39%	16%	45%	41%	63%
Durables	49	36	12	41	41	61
Nondurables	60	43	21	50	41	65
Service	37	46	11	49	45	65
Financial	20	50	6	61	42	90
Other	47	44	13	46	48	50
Total (all companies)	47	42	14	46	43	64

[a] Year covered is 1989

[b] Base varies, but 142 companies responded

firms in the other industry groups. Campaign tactics involving quality rallies or articles geared to *managers* are most popular in financial service firms. Firms in all industries tend to use top management letters and memos on an as-needed basis, but nondurable companies have a slight edge in using these communiques as a campaign tactic.

Communication is only one factor in promoting employee involvement, but the data hint that planned campaigns may contribute to success. Those executives who profess a high level of satisfaction with their progress in involving employees in TQM are more likely to have planned communications campaigns than are executives who are disappointed with their progress (see "Summary" in Table 24). Moreover, those firms with a planned campaign using approaches such as rallies, articles targeted to managers, and videos, are less likely to report that negative attitudes toward quality are a major problem than are other respondents.

Sparking the Involvement Process

Respondents were asked about their use of management-review meetings, training, employee feedback devices and teams to trigger and sustain employee involvement. Top management support remains the *sine qua non*, in the words of one respondent, and several participants identified quality review meetings with top management as vital to success. "We have a weekly review of quality measures with senior management. People put their time where their priorities are, so this meeting really sends a loud and clear message about the importance of quality," says a banking executive. Next to review meetings, training and teams stand out as most crucial. However, many participants pointed out that all of the involvement techniques are interdependent, and each is necessary to accomplish specific objectives. The quotes heading the following sections reflect comments of respondents.

Training: "A Common Language and Understanding"

Quality awareness can be sparked by communications, but training helps to reinforce the quality message as well as to build the necessary skills. "Formal training must precede all else," a respondent from a durable goods producer proclaims. A recent Conference Board study of quality training in leading-edge firms suggests that such companies harness training as a change agent. Early in the TQM process, training focuses on quality awareness, attitudinal and behavioral change. As the process takes hold, the emphasis shifts to skill development. Team building, process management, customer awareness, the tools of quality measurement, and statistics are stressed[3] (see Exhibit 4 on page 24). Formal training "leveled the field and everyone spoke the same language and understood the same concepts," reports an executive in a consumer goods company.

Among respondents to this study, manufacturers outpace service firms in offering training--92 percent do so, compared to 75 percent of service companies. One reason for the difference is that TQM is a more recent development in service companies. Of those firms using TQM for one year or less, 70 percent offer quality training. At least 90 percent of those with a TQM process of two or more years duration, now train managers and/or nonmanagement employees (see Table 10). Firms with a TQM process of 8 years or more are somewhat less likely to offer formal training than are those with a process of 2 to 7 years. It is possible that quality has become institutionalized in the oldest processes, so that less training is needed—or that quality training is indistinguishable from ongoing training efforts.

The typical respondent reports that nearly all senior and middle managers are trained in quality; as are at least 80 percent of first-line supervisors and 50 percent of nonmanagement employees. The median number of hours of training annually is 16 for managers and 8 for nonmanagers. Manufacturers lead service firms in offering training to nonmanagers. Among manufacturers, 40 percent of nonmanagement employees clock 16 or more hours of training. This is true for less than 20 percent of

Table 10: TQM Involvement Techniques (Grouped by Age of TQM Process) (N=144)

	Number of Companies	*Periodic Quality Meetings*	*Training Programs*	*Short-Term Teams*	*Long-Term Teams*
Years TQM Process is in place					
8 years or more	24	71%	75%	79%	37%
5 – 7 years	39	85	95	90	49
2 – 4 years	52	83	90	96	36
1 year or less	31	58	71	89	19
Total (All Companies)	146	76	85	89	36

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[3] Kathryn Troy, *Quality Training: What Top Companies Have Learned*, The Conference Board, Report No. 959, 1991.

Exhibit 4: Quality Training Programs at Armco Inc.

Executive Action: 3-day event. Designed to enable a business unit leadership team to develop strategy and action plans necessary to guide the implementation of a Quality Strategy in their organization.

Quality Management: 2-day event. Attendees are Quality Improvement Team members and other key personnel. Designed to get the "buy-in" for why quality improvement is a necessity in today's world.

Management Action: 2-day event. Designed for middle managers in a business unit. Allows them to understand the organization's involvement in quality improvement and also explains the role of the Quality Improvement Team in their area and their role/responsibility in working with the Quality Improvement Team.

Quality Improvement Team: A 5-day event for a 10 to 12 person team composed of personnel representing a diagonal slice of the business unit organization. The objective is to develop and practice the skills of working together as a team to implement and manage a quality improvement system in their area of responsibility.

Corrective Action Team Leader: A 4-day event for prospective team leaders. Team leaders are from a cross-section of the organization and are given training in group dynamics and in teaching and using problem-solving skills in a group environment.

Work Group Leader: A 5-day event for first-line supervisors and/or group or section leaders. Participants are instructed in how to manage for quality improvement in a participative manner. Session covers interpersonal skills, group problem-solving skills, and group dynamics.

Supplier Quality Assurance: A 2-day event for teams of people who use/evaluate/purchase a given supply/commodity. Teams typically composed of representatives from purchasing, operations, maintenance, quality assurance and any required technical assistance. Teams are trained to establish functional requirements and performance standards to evaluate the given supply item or commodity.

Critical Process: A 3-day event for a cross-functional multiple disciplined team that is formed to address processes that cross departmental lines and have high impact on the products or services of the business unit (e.g., engineering change procedures, capital appropriations, introduction of new products, etc.). Training involves team building, action planning, and group problem-solving skills.

Statistical Process Control: As short as 4 hours to as long as 5 days tailored to the needs of the audience. The short version is a basic overview of SPC and its benefits to the organization. The longer versions cover X-BAR & R charts, P & NP charts, C & U charts, Central Limit Theorem, Capability, Rational Subgroups, Sample size, etc. Typically the technical people are given the 40 hour training and operators are given 16 hours of training.

Quality Engineering—Taguchi Methods (DOE): A 5-day event targeted to technical personnel. Participants are taught to design experiments using a creative problem-solving approach and statistical techniques which allow efficient determination of optimal operating conditions. Also covered are Taguchi's Loss Function and Analysis of Variance.

Quality Audits for Improved Performance: A 2-day event for personnel from all levels of the organization. Participants are taught the basics of Quality Auditing and how to use the audit function to improve a business unit.

General Facilitator: Specialized training designed for the audience and/or the facilitators being trained. Classroom time varies by subject and audience. Subjects include Root Cause Analysis, Systematic Problem Solving, Process Flow Analysis, Customer/Supplier Partnerships, etc.

Source: Armco Inc.

nonmanagement workers in service firms (see Table 11 and Chart 5).

As with communication campaigns, training appears to play a role in easing negative attitudes toward quality. Only a third of respondents offering 16 or more hours of training to managers consider negative attitudes among managers a major problem, compared with just over half of those clocking fewer hours. Among those firms which train nonmanagers for at least 6 hours, just 15 percent consider negative attitudes a major problem compared to 25 percent of those offering less time.

Table 11: Quality Training: Annual Average Number of Hours per Employee (Grouped by Industry)

	1 – 5	6 – 15	16 or more
Manufacturing (78)			
Managers	26%	19%	55%
Nonmanagers	19	41	40
Service (36)			
Managers	29%	21%	50%
Nonmanagers	43	40	17
(Base = 114 responses)			

Teams: "Involvement Where It Counts"

Teams often release the creative energies of those closest to work processes in a way that can help prevent or solve quality problems, cut across departmental and functional barriers, surface new ideas, and ultimately produce better products and services. Together with training, survey participants identify teams as heading the list of valuable involvement techniques. "Training is essential for culture change, teams for implementation," reports a diversified manufacturer.

Teams vary in purpose and duration. Short-term teams, such as a task force, may meet over a brief time span to investigate issues, solve specific problems or make recommendations on a discrete set of activities. Quality circles are groups which promote employee involvement and problem-solving relevant to immediate work-related needs. They are impermanent and may be disbanded or reconstituted as needs change. Virtually all manufacturing and 90 percent of service respondents have short-term teams. Typically, teams involve 50 percent of the firms' senior managers, 40 percent of middle managers and first-line supervisors, and 30 percent of nonmanagers.

Respondents laud short-term teams because they "involve people at all levels and give tangible results quickly." They are focused, task-oriented, meet regularly, are reinforcing and improve morale. Says one participant: "Task teams make bottom-line improvements which stimulate line management commitment."

Roughly 40 percent of respondents have long-term teams. This proportion rises to 60 percent among those firms rating themselves near the top in Baldrige award-readiness, and plunges to 20 percent among participants who say they are less than half way there. In general, the longer the TQM process has been in place, the greater the likelihood that such groups will exist. "Short-term teams were useful in the beginning to learn to solve easier problems, then we expanded into self-managed work groups for long-term benefits," says a manufacturer. Again, the firms with the oldest processes seem somewhat less likely to use long-term teams than those in the next age group (see Tables 7 and 10). In the oldest group, 4 of the 11 respondents who do not have long-term teams plan to start them within two years. Two firms are "very satisfied" with their progress toward involving employees, and the remainder are only "moderately" satisfied or dissatisfied with their progress.

The largest firms—those with more than 15,000 employees are also more likely to have long-term teams than are smaller firms, but half of the smaller group plan to implement such teams within three years (see Table 12). Typically, half of top management, about a quarter of middle managers and first-line supervisors, and a fifth of nonmanagers are involved in long-term teams. (These figures are medians.) Greater involvement at upper-management levels may be tied to the fact that long-term teams are started at the top of the organization and need time to work their way through management layers to workers. Since such teams tend to be the mark of a mature TQM process, there has not yet been sufficient time to complete the cascading process.

Members of long-term teams not only recommend action, but have the power to implement solutions. In some cases, team members are workers in the same department who meet periodically (e.g., weekly) to monitor quality, set schedules and control costs. Some teams are vertically structured, including representatives from many different levels of the company, who focus on changes in a particular product line or issue (such as new technology) over time. In a more evolved team model, workers may be cross-trained and enabled to take on a variety of responsibilities as needs shift. In addition to monitoring quality, scheduling and cost-control, team members take on some managerial tasks. They plan, hire and interact with customers and vendors. The managerial/supervisory role is transformed into that of leader. Team leaders become coaches, counselors—the pointmen for the group.

Table 12: Use of Long-Term Teams (Grouped by Size of Employee Population)

		Long-Term Teams	
	Number of Companies	*Have now (1990)*	*Plan (By 1993)*
Number of Employees			
2,000 or less	18	33%	50%
2,001 – 5,000	26	35	31
5,001 –15,000	48	25	40
15,001 – 30,000	30	47	27
30,001 or more	34	62	18
Total	156	40%	32%

Among the advantages to long-term teams, respondents note that autonomous teams show management's confidence in employees. "When you indicate confidence, employees take ownership and feel responsible." Moreover, teams focused on improvement commit their members to a joint effort rather than to a "program." In sum: "Teams (both autonomous and supervisory/participant) are very effective when supported with a consistent problem-solving methodology. They get people to concentrate on root causes in a continuous-improvement thought process," says a computer company executive.

Feedback Devices: "Direct Input From Each Employee"

Listening to customers is a key tenet of TQM, and respondents report extensive use of feedback devices with internal customers, managers and employees. Eight out of ten firms conduct attitude surveys and/or run focus groups to sense employee concerns and three quarters have an employee suggestion program. About half of the firms have done a communications audit—a formal attempt to understand how employees receive information, how they would *prefer* to receive it and how effective internal communications really are. Overall, service firms are more likely than are manufacturers to use these devices; it is possible that this use is linked to the initiation stage of the TQM process in later-starting service firms (see Chart 5).

Table 13: Use of Employee Feedback Devices (Grouped by Size of Employee Populations)

	Opinion/Attitude			*Focus Group*			*Communication Audit*		
	Number of Companies	*One Time*	*Periodic*	*Number of Companies*	*One Time*	*Periodic*	*Number of Companies*	*One Time*	*Periodic*
2,000 & less	13	23%	77%	11	0%	100%	7	14%	86%
2,001 – 5,000	18	28	72	11	18	82	10	30	70
5,001 – 15,000	39	21	80	23	13	87	15	40	60
15,001 – 30,000	23	9	91	20	20	80	13	23	77
30,000 +	27	4	96	23	9	91	14	14	86
Total	120	16%	84%	88	13%	87%	59	25%	75%

In the vast majority of firms, attitude or opinion surveys are customized, but about a quarter of the users report inclusion of some general material as well. Half of the respondents use outside consultants to conduct the surveys. Survey items are used to assess employee attitudes toward quality in 85 percent of the firms, and 75 percent include items which help to identify problems and obstacles to implementing TQM. About half of the firms also use the surveys to elicit suggestions from employees. "The surveys showed employees that we were serious about listening to their opinions, says a utility executive. "We demonstrated that employee feedback was received, listened to and acted upon," a banking executive reports.

In general, firms with a larger employee population are more likely than those of smaller size to conduct employee opinion or attitude surveys periodically, rather than relying on one-time use (see Table 13). Those firms reporting the highest levels of satisfaction with their progress in involving employees are also more likely to do periodic survey work than are those expressing dissatisfaction.

Surveys typically reach all or most managers and employees, but focus groups are by design more selective. Such groups might average 8 or 10 participants from either similar or differing management layers, job functions or company locations, varying with the objectives of the research. They may be targeted at ferreting out strengths and problems, generating concerns to be tested in broader survey work, or as an aid to understanding results of survey work. A service firm reports positive results through using focus groups to "get direct feedback regarding quality service barriers and ideas for improving service." Respondents indicate that about 10 percent of nonmanagement and first-line supervisors participate in focus groups, as do 20 percent of middle managers and a quarter of senior managers. (These numbers are medians.) Most firms report that focus groups are conducted periodically, rather than being a one-time event. Only 20 percent use outside consultants for this activity.

Those firms doing communications audits typically include all senior managers, six out of ten middle managers, half of their first-line supervisors and 4 out of 10 nonmanagers. The vast majority of firms doing audits repeat them periodically, and outside consultants conduct the audit in roughly a third of the companies.

Although three out of four respondents have employee suggestion programs, only half of this group was able to provide data on numbers of suggestions submitted in a recent year (1989) or the percent implemented. The median number of suggestions received was 700 (although one firm reported more than 260,000). About half were implemented. All senior managers and 75 percent of nonmanagerial employees are covered by the typical program, as are roughly 65 percent of middle managers and first-line supervisors. Several respondents identified suggestion systems as the most valuable of the involvement techniques they have tried. "We will reach 9,000 suggestions in 1990," a transportation service firms boasts. Over time, some firms replace the programs with the work of problem-solving or continuous improvement teams. "Suggestion programs have been dying out for several years. They are diffuse and opportunistic, compared with focused, team improvement efforts and a 'continuous improvement' imperative," a major manufacturer observes. (See box on page 27 for more on suggestion programs.)

Involvement Techniques Are Ongoing

Only about 20 firms report they have discontinued any of the involvement techniques they tried in the past few years. Most often mentioned were employee suggestion systems and training programs, which the firms felt needed to be overhauled or reformulated as part of a long-term strategy. A few discontinued opinion surveys or communication audits because positive results were negligible. One firm decentralized its management review meetings and another discontinued them, noting that they had been "sporadic at best."

Employee Suggestion Programs

One of the many methods firms use to involve employees in a TQM process is the Employee Suggestion Program. Three-quarters of the respondents in this study have suggestion programs in place, and they report receiving as few as 5 and as many as 262,000 suggestions in a recent year. Suggestion programs improve a company's business processes by encouraging employees to participate in their firm's drive for excellence. Employees' suggestions can result in tangible and intangible savings: Ideas may reduce waste; improve productivity, equipment and processes; heighten customer satisfaction; and upgrade services.

A review of employee suggestion programs submitted by members of the Conference Board's U.S. Quality Council reveals key areas of similarity as well as features which vary by company.

Standard Features:

Explanation of a Good Suggestion: To submit an application the employee must have a creative and original idea or approach; a clear and concise description; adequate details; and a well thought-out solution to accompany the idea. For example, a manufacturing company employee might suggest ideas for more efficient machine and equipment maintenance, with an explanation of how this would take place.

Eligibility Requirements: The company defines who would be eligible to participate in the program. Rules and regulations vary by company. For example, one company allows participation of regular and supplemental employees, as well as employees covered under their medical disability plan, employees on approved leaves of absences, and retirees under their retirement plan.

Submission of a Suggestion: In most cases, suggestions are submitted on a company suggestion form (see Exhibit 5 on page 28). Some companies allow submission by electronic mail, telephones and facsimiles. Extra sheets, drawings, charts and photos can also accompany the suggestion. Forms should be available in a designated area of every department. Individuals and teams can submit ideas. Most companies use one standard form for all types of submissions, and others develop a separate joint submission form for teams. Employees are encouraged to review their suggestions with their managers before submission.

Processing a Suggestion: After employees have filled out suggestion forms, they may drop them in an Employee Suggestion Box or send them to a central office. In some firms, suggestions may go directly to a chosen department such as Human Resources. Usually, each suggestion is stamped with the date upon receipt and assigned a reference number. In one company, an acknowledgment is sent to the employee within 10 working days. The suggestion is then forwarded for evaluation to the unit that would be responsible for implementation. If the unit accepts the idea, it is sent back to a suggestion team or committee where it is checked for award eligibility against other active suggestions. (A suggestion team or committee can be made up of the Human Resources executive vice presidents, supervisors, and representatives of management from areas such as engineering, production and quality control.)

Types of Awards: Suggestions may have tangible and intangible value. To earn a tangible savings award, a suggestion must prove to reduce costs or provide cash savings. If cost savings can be measured, one manufacturing company initiates a check for $100 and then issues 15 percent of the actual savings per quarter for one year on top of the employee's initial $100. A service company offers $1,000 in gift cheques if an idea is feasible and creative, can project a positive financial impact, and can compliment operational procedures.

Intangible savings awards are granted when a specific idea will result in savings or other benefits to the company that cannot be measured in dollars (e.g., improved service, product quality and reliability, and health or security).

Awards for tangible and intangible savings can range from $50.00 to $150,000. Some companies offer award winners free meals, trips or other nonmonetary rewards as an alternative.

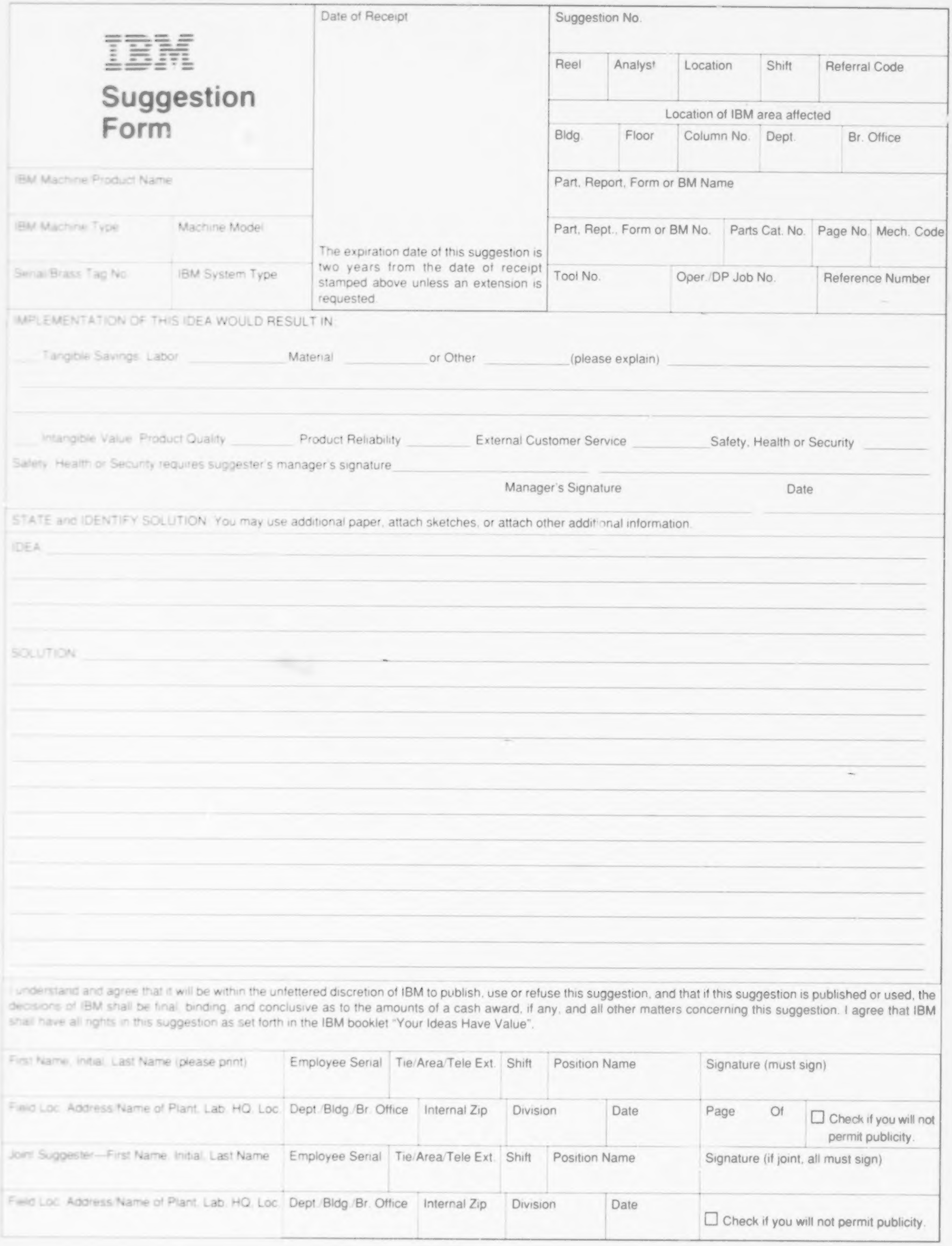
Variable Features:

Not all firms act on suggestions immediately. Some programs answer within 24 hours, while others need 30-60 working days, depending on their evaluation process. Most programs use a written form to respond to suggestions, assuming the employee gives a name. Some firms provide guidance on suggestions that should be avoided. For example, in evaluating suggestions for implementation, one company's policy disallows those suggestions that are part of an employees' assigned duties and job responsibilities. When this happens, the suggestion team may notify the employee in writing. Other subjects to avoid include new ideas for wages, work hours, employee benefits, recreation programs, business ventures and housekeeping, to name a few. In some programs declined suggestions may be reevaluated. In one company, a suggestion rejected for lack of merit is protected for 13 months, and may be resubmitted three times. If an employee disagrees with the decision, a further committee review can be requested. In another company, a suggestion that is not adopted can be resubmitted, as long as more information is added for reevaluation. This is considered a new request and should be submitted on a new suggestion form.

Those implementing Employee Suggestion Programs should include these key elements:

- A set of instructions and regulations
- Designated areas for suggestion forms
- Employee Suggestion Boxes at key company locations or other means of relay
- A suggestion team or committee for evaluation
- A process for implementing ideas
- A procedure for presenting awards

Exhibit 5: IBM Suggestion Form



IBM

Suggestion Form

Date of Receipt

The expiration date of this suggestion is two years from the date of receipt stamped above unless an extension is requested.

Suggestion No.

Reel	Analyst	Location	Shift	Referral Code

Location of IBM area affected

Bldg.	Floor	Column No.	Dept.	Br. Office

IBM Machine/Product Name	
IBM Machine Type	Machine Model
Serial/Brass Tag No.	IBM System Type

Part, Report, Form or BM Name

Part, Rept., Form or BM No.	Parts Cat. No.	Page No.	Mech. Code

Tool No.	Oper./DP Job No.	Reference Number

IMPLEMENTATION OF THIS IDEA WOULD RESULT IN:

___ Tangible Savings: Labor ______ Material ______ or Other ______ (please explain) ______

___ Intangible Value: Product Quality ______ Product Reliability ______ External Customer Service ______ Safety, Health or Security ______

Safety, Health or Security requires suggester's manager's signature ______ ______

Manager's Signature Date

STATE and IDENTIFY SOLUTION: You may use additional paper, attach sketches, or attach other additional information.

IDEA ______

SOLUTION ______

I understand and agree that it will be within the unfettered discretion of IBM to publish, use or refuse this suggestion, and that if this suggestion is published or used, the decisions of IBM shall be final, binding, and conclusive as to the amounts of a cash award, if any, and all other matters concerning this suggestion. I agree that IBM shall have all rights in this suggestion as set forth in the IBM booklet "Your Ideas Have Value".

First Name, Initial, Last Name (please print)	Employee Serial	Tie/Area/Tele Ext.	Shift	Position Name	Signature (must sign)
Field Loc. Address/Name of Plant, Lab, HQ, Loc.	Dept./Bldg./Br. Office	Internal Zip	Division	Date	Page Of ☐ Check if you will not permit publicity.
Joint Suggester—First Name, Initial, Last Name	Employee Serial	Tie/Area/Tele Ext.	Shift	Position Name	Signature (if joint, all must sign)
Field Loc. Address/Name of Plant, Lab, HQ, Loc.	Dept./Bldg./Br. Office	Internal Zip	Division	Date	☐ Check if you will not permit publicity.

Sustaining Involvement

Responses to this study suggest that the crucial test for those who implement TQM lies in sustaining the process over time. Skeptical workers and managers continue to scrutinize their leaders' actions to ascertain whether they are "walking the talk." While continuing to provide role models, to train, and to communicate TQM success stories widely, survey participants also use employee recognition and performance measurement to demonstrate a commitment to TQM. For example, IBM Corporation's Rochester facility, a 1990 Baldrige award winner, has a wide variety of recognition and compensation programs (see Exhibit 6 on page 30).

Awards Programs

Firms recognize achievement in order to build esteem and foster creativity among individuals, teams, business units or plants. Seeing such an atmosphere as crucial to the success of a continuous improvement process, Xerox Corporation offers a special workshop, "The Power of Recognition," to help sensitize managers to its importance.[4] The most effective form of recognition might well be a pat on the back by a supervisor at the instant the achievement takes place. However, about 85 percent of firms give formal awards to individuals and teams in recognition of quality achievement. Three quarters offer unit or plantwide awards. As Table 14 indicates, the number of employees recognized increases with the size of the work force. Respondents employing 2,000 or less recognized 49 employees (the median), while the largest firms recognized more than 1,300.

In some firms, awards to individuals may be an extension of a practice that predated the adoption of TQM, but in many firms it coincides with institution of the process. More than a quarter of the firms with TQM in place for a year or less do not give awards to individuals, while this is true of less than 10 percent of the firms that initiated a TQM process two to four years ago (see Table 15, page 30). Noncash awards prevail in almost half of manufacturing firms; about the same proportion of service firms offer a combination of cash and noncash recognition. Many quality professionals hold that cash alone is not an effective motivator for quality achievement, and less than 10 percent of firms in either sector offer only cash awards (see Chart 6).

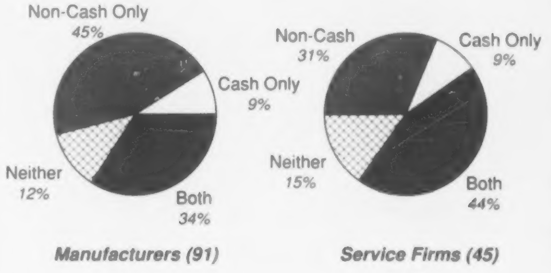
Table 14: Employees Receiving Quality Awards (Grouped by Size of Employee Population)

	Number of Companies	*Median Number of Employees Receiving Awards*
Number of Employees		
2,000 or less	12	49
2,001 – 5,000	13	150
5,001 – 15,000	32	200
15,001 – 30,000	21	450
30,001 or more	18	1,332
Total	96	200

Chart 6

Awards to Individuals

(Base = 136 Firms)



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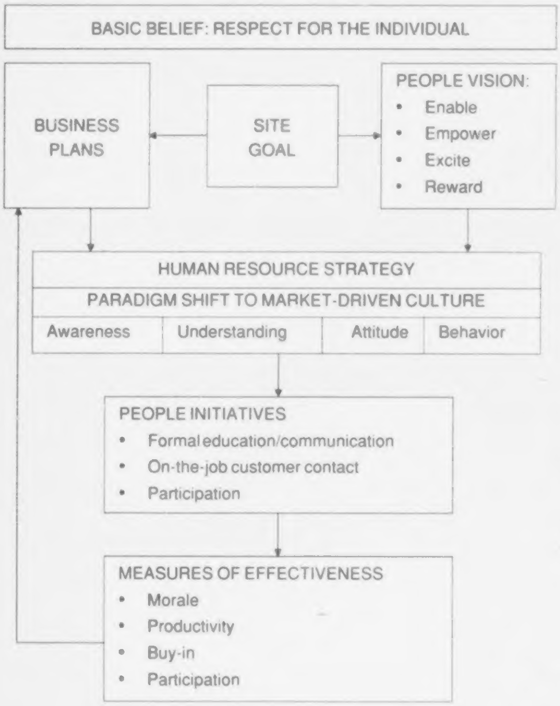
[4] Dr. Harold J. Tragash, "Building Momentum Through Reward and Recognition," *Total Quality Management*, The Conference Board, Report No. 963, 1991.

Exhibit 6: Recognition and Reward Programs at IBM Rochester

Integrating People Into Quality and Business Plans

Achieving Market-Driven Quality goals depends on enabled, empowered, excited, and rewarded employees. IBM Rochester's human resources strategy strives to bring about a cultural shift from a product-driven quality focus and consists of three initiatives: formal education, on-the-job customer contact, and participation. Morale, buy-in, participation, and productivity are measured to ensure these human resource initiatives are continuously improved.


BASIC BELIEF: RESPECT FOR THE INDIVIDUAL
BUSINESS PLANS
SITE GOAL
PEOPLE VISION:
• Enable
• Empower
• Excite
• Reward
HUMAN RESOURCE STRATEGY
PARADIGM SHIFT TO MARKET-DRIVEN CULTURE
Awareness
Understanding
Attitude
Behavior
PEOPLE INITIATIVES
• Formal education/communication
• On-the-job customer contact
• Participation
MEASURES OF EFFECTIVENESS
• Morale
• Productivity
• Buy-in
• Participation

Source: *The Quality Journey Continues*, IBM, December 1990.

Participation Initiatives

The environment at IBM Rochester fosters participation and empowerment through many programs. Compensation and recognition programs ensure that people are rewarded for quality improvement and innovation.

EMPOWERMENT DECISION-MAKING

- Opinion survey
- Speak Up process
- Open Door
- Suggestion Plan
- Roundtables
- Skip-level interviews
- Development plans
- Performance plans
- Manufacturing Skills Integration

JOB FLEXIBILITY

- Full employment
- Volunteer temporary assignment
- Flextime schedules
- Internal transfer opportunities
- Retraining

RECOGNITION

- Performance evaluation
- Verbal thanks
- Promotion
- ABS Quality Awards
- Team awards
- Management Appreciation Awards
- ABS Excellence Awards
- Management Excellence Awards
- Author recognition
- Inventor recognition
- Sitewide publicity

COMPENSATION

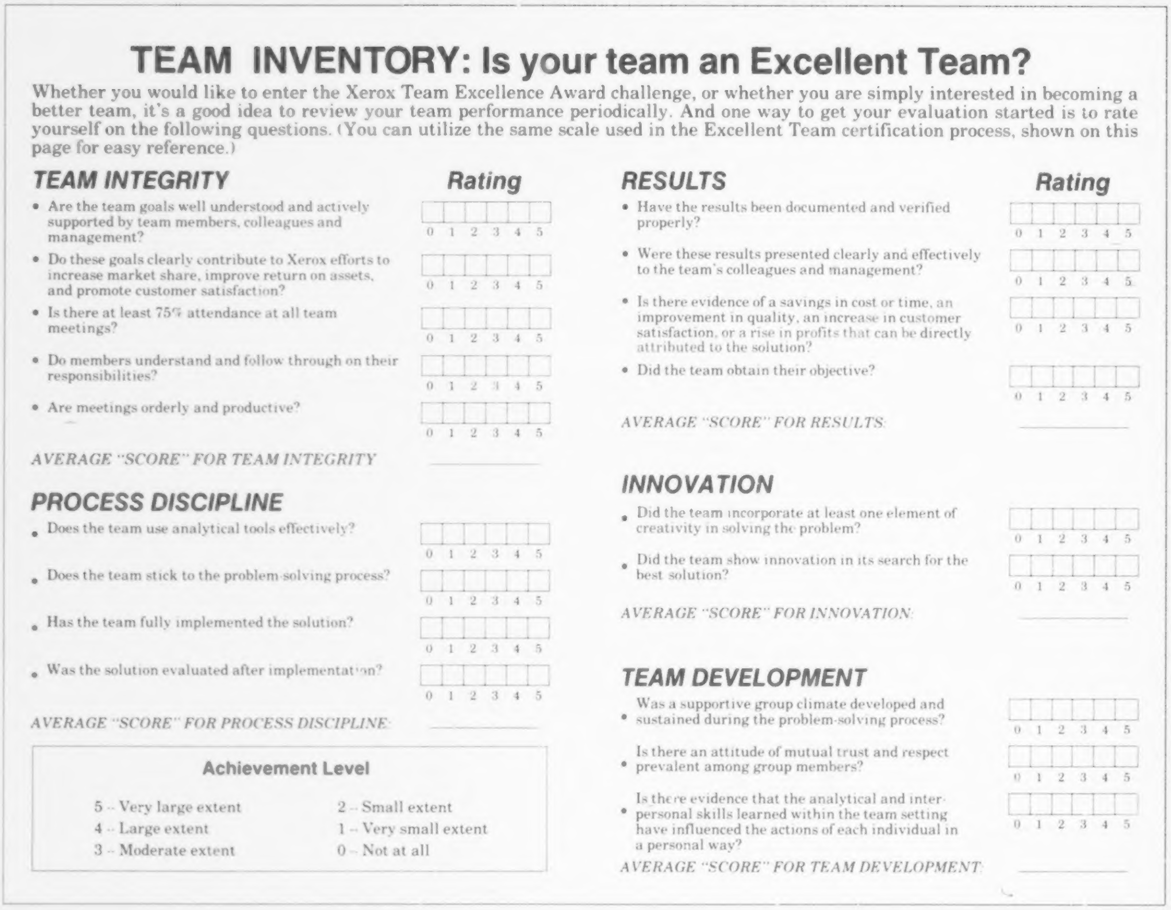
- Merit pay
- IBM benefits plans
- Voluntary tax-deferred savings plan
- Voluntary stock purchase plan
- Employee Assistance Program
- A Plan for Life
- Elder Care Referral
- Child Care Referral
- IBM Club
- Watson Scholarship

Table 15: Quality Awards for Individuals and Groups (Grouped by Age of TQM Process) (N=146)

Give Awards To:

	Individuals				*Teams*				*Units/Plans*			
	None	*Cash*	*Noncash*	*Both*	*None*	*Cash*	*Noncash*	*Both*	*None*	*Cash*	*Noncash*	*Both*
Years TQM Process in Place												
8 years or more	0%	10%	58%	31%	5%	10%	53%	32%	21%	10%	53%	16%
5 – 7 years	11	6	43	40	9	8	49	34	20	–	63	17
2 – 4 years	8	6	49	37	16	6	49	29	37	10	35	10
1 year or less	27	15	23	35	38	8	31	23	73	4	11	11

Exhibit 7: Xerox Corporation Quality Teams



TEAM INVENTORY: Is your team an Excellent Team?

Whether you would like to enter the Xerox Team Excellence Award challenge, or whether you are simply interested in becoming a better team, it's a good idea to review your team performance periodically. And one way to get your evaluation started is to rate yourself on the following questions. (You can utilize the same scale used in the Excellent Team certification process, shown on this page for easy reference.)

TEAM INTEGRITY	Rating
• Are the team goals well understood and actively supported by team members, colleagues and management?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Do these goals clearly contribute to Xerox efforts to increase market share, improve return on assets, and promote customer satisfaction?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Is there at least 75% attendance at all team meetings?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Do members understand and follow through on their responsibilities?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Are meetings orderly and productive?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
AVERAGE "SCORE" FOR TEAM INTEGRITY	______

PROCESS DISCIPLINE	
• Does the team use analytical tools effectively?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Does the team stick to the problem-solving process?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Has the team fully implemented the solution?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Was the solution evaluated after implementation?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
AVERAGE "SCORE" FOR PROCESS DISCIPLINE:	______

Achievement Level

5 – Very large extent	2 – Small extent
4 – Large extent	1 – Very small extent
3 – Moderate extent	0 – Not at all

RESULTS	Rating
• Have the results been documented and verified properly?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Were these results presented clearly and effectively to the team's colleagues and management?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Is there evidence of a savings in cost or time, an improvement in quality, an increase in customer satisfaction, or a rise in profits that can be directly attributed to the solution?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Did the team obtain their objective?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
AVERAGE "SCORE" FOR RESULTS:	______

INNOVATION	
• Did the team incorporate at least one element of creativity in solving the problem?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Did the team show innovation in its search for the best solution?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
AVERAGE "SCORE" FOR INNOVATION:	______

TEAM DEVELOPMENT	
• Was a supportive group climate developed and sustained during the problem-solving process?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Is there an attitude of mutual trust and respect prevalent among group members?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
• Is there evidence that the analytical and interpersonal skills learned within the team setting have influenced the actions of each individual in a personal way?	☐ ☐ ☐ ☐ ☐ ☐ 0 1 2 3 4 5
AVERAGE "SCORE" FOR TEAM DEVELOPMENT:	______

Source: *Team Excellence*, Xerox Corporation.

Since teamwork is key to successful TQM, quality experts counsel firms not to overemphasize individual achievement. Thus, team awards are almost as common as individual awards. At Control Data Corporation, leadership awards are available to teams or individuals "who have exhibited exceptional personal or organizational commitment to continuous quality improvement." Xerox encourages its teams to track themselves against five criteria (see Exhibit 7). To qualify for an award at an annual ceremony held at five geographically dispersed company locations, teams must score at least "4" on a five-point scale for each criterion.

Fewer than 10 percent of those firms with a TQM process of 5 years or more are without team awards, but close to 40 percent of the recent startups have not yet instituted them. Noncash awards predominate in both service and manufacturing firms, but service firms lag behind manufacturers in creating a team award program (see Chart 7). Team awards are offered by nearly 90

Chart 7

Awards to Teams

(Base = 137 Firms)

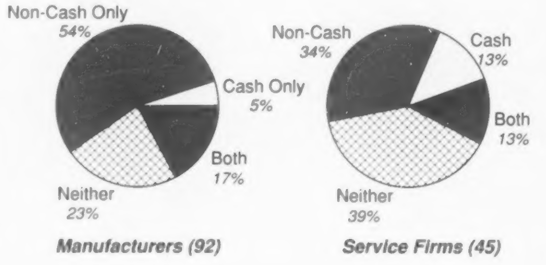
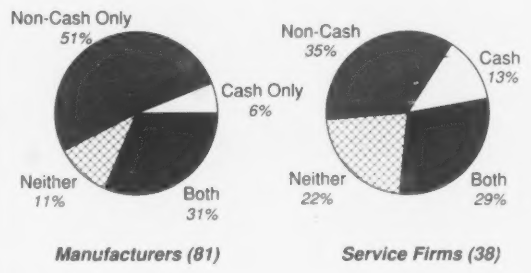


Chart 8

Awards to Units & Plants

(Base = 119 Firms)



percent of manufacturing respondents, versus 60 percent of service firms. Illinois Power Company is one of the service firms that does make team awards. The Team Achievement Award goes to groups who meet three criteria. They must follow the firm's quality process; meet their team's mission; and achieve results in customer service or other specified areas. This is a noncash award, where team members receive a certificate, a gift item, and the chance to win a weekend trip. The firm's Goal Achievement Award is cash-based, and recognizes work teams for achieving annual performance goals set by local management.

Unit and plantwide award programs are still evolving. Seventy-five percent of the firms with the most recent TQM start-up lack them as do nearly 40 percent of firms with TQM of a 1986-88 vintage. Awards are primarily noncash, especially among manufacturers, but almost a quarter of service firms do not yet have awards of unit or plantwide scope (see Chart 8).

Westinghouse Electric Corporation and Control Data Corporation are among the firms that make unit or plantwide awards. In 1988, Westinghouse announced the annual George Westinghouse Total Quality Awards, which are intended for Westinghouse organizations "no smaller than a division or equivalent unit." Each year a panel of judges makes two awards, one for Best Total Quality Performance and one for Most Improved Total Quality Performance. The winning organization receives an award plaque and a cash award of $200,000. In addition to its award for Leadership, Control Data also makes awards for Innovation, Service and Product. Individuals, business units, teams, divisions and organizations are eligible. Vendors and suppliers may also be nominated for the product and service awards (see Appendix). Illinois Power's Goal Achievement Award is a cash award which may go to a power plant or service area as well as to a smaller team unit. This award is based on the work unit's achievement of annual goals. Some firms offer additional incentives to all employees. For example, Illinois Power has an incentive compensation program in which its employees can receive cash and stock if annual goals are achieved.

Awards programs for individuals, teams, units or plants are in place in more than 90 percent of the firms that give themselves a high score on Baldrige award-readiness. In contrast, 20 percent of those firms which say they are less than half way to meeting Baldrige criteria do not have award programs for individuals; 30 percent lack such programs for teams, and 50 percent have no award for units or plants (see Table 16). The firms at the low end of the Baldrige scale report issuing 175 awards annually (the median), while those at the high end register 450.

Performance Appraisal, Compensation, Promotion

Perhaps the most direct evidence that shows top management is serious about TQM is to link quality achievement to performance review, compensation and promotion (see Exhibit 8). Not all respondents were able to supply data on this topic, but among the 127 who did, three-quarters link quality achievement to performance appraisal. Although 4 out of 10 firms say this practice applies to all employees, it is more common to target specific groups, starting at the top.

Table 16: Quality Awards for Individuals and Groups (Grouped by Baldrige Award Readiness Self-Rating) (N=129)

	Give Awards To:											
	Individuals				*Teams*				*Units/Plans*			
	None	*Cash*	*Noncash*	*Both*	*None*	*Cash*	*Noncash*	*Both*	*None*	*Cash*	*Noncash*	*Both*
Baldrige Award Readiness Self-Rating												
Less than half way	21%	12%	41%	26%	29%	12%	40%	19%	50%	5%	39%	5%
Half to 75% of way	11	6	41	41	11	9	43	37	24	7	40	29
75 to 100% of way	7	7	42	43	5	7	47	40	6	9	73	12
Total	13	8	42	36	15	9	44	32	27	7	50	16

Exhibit 8: Performance Rating Guidelines: Ore-Ida, a Division of H.J. Heinz

Rating TQM Performance

Exempt Salaried Employees

No Exempt employee will be eligible for an "Exceeds" or "Far Exceeds" rating without *at least* an "Exceeds" rating for TQM performance.

Non-Exempt Salaried Employees

No Non-Exempt employee will be eligible for a "Superior" rating without at least an "Above Average" rating for TQM performance.

Listed below are some examples of how an individual might demonstrate commitment to and participation in TQM. This is not a list of requirements for a particular performance level. Management discretion will be required, and this list will provide ideas on things to consider when rating TQM performance.

- Charting of own errors (shows evidence of accepting 50 percent of responsibility for problems—an aspect that is critical to the success of TQM)
- Quality (first) and quantity (second) of QRs [Quality Recommendations] submitted—consider magnitude of hassle elimination and also dollar impact if applicable
- Responsiveness in answering QRs
- Application of TQM concepts in resolving problems
- Active participation on a CAT [Corrective Action Team]—consider level of participation
- Act as TQM trainer/orienter in addition to normal job—consider level of training/hours of commitment
- Take TQM-related training over and above core training requirements; e.g., evening course on statistical process control
- Number of formal and informal recognition awards received
- Leadership (for supervisory personnel). Walk like you talk; evidence of subordinates' acceptance of and participation in the process; coaching of subordinates; recognition given to subordinates
- Active participation on Steering Committee, Council, TQM Team, Ad Hoc Committee (groups one is required to serve on)
- Other non-normal activities which enhance the company's TQM efforts and performance

Source: Ore-Ida

Performance

Quality is a factor in performance appraisal for managers in at least 70 percent of the Baldrige award-ready firms, and for nonmanagers in over 50 percent. Of those rating themselves under half way to Baldrige status, about 45 percent link quality to performance appraisal for managers, and just under 30 percent apply it to nonmanagers (see Table 17). Baldrige award winner, Federal Express Corporation, uses a bottom-up as well as top-down performance appraisal to assess leadership skills in its managers. An employee survey form helps the firm pinpoint its leadership strengths and weaknesses. Managers must meet with their staff to discuss

Table 17: Linking Quality Achievement to Performance Measurement/Reward
(Grouped by Baldrige Award-Readiness Self-Rating) (N=118)

	Quality Achievement Linked to:											
	Performance Appraisal for:				*Compensation for:*				*Promotion for:*			
	Senior Mgrs.	*Middle Mgrs.*	*1st-line Supv.*	*Non-Mgrs.*	*Senior Mgrs.*	*Middle Mgrs.*	*1st-line Supv.*	*Non-Mgrs.*	*Senior Mgrs.*	*Middle Mgrs.*	*1st-line Supv.*	*Non-Mgrs.*
Baldrige Award-Readiness Self-Rating												
Less than half way	44%	54%	41%	28%	31%	33%	13%	10%	15%	15%	15%	5%
Half to 75% of way	67	72	65	55	52	60	49	35	27	35	30	22
75 to 100% of way	79	79	72	54	64	56	54	33	54	61	54	28
Total	63	69	59	46	49	50	38	11	32	37	33	19

Table 18: Linking Quality Achievement to Performance Measurement/Reward (Grouped by Age of TQM Process) (N=118)

Quality Achievement Linked to:

	Performance Appraisal for:			*Compensation for:*			*Promotion for:*		
	Middle Mgrs.	*1st-line Supv.*	*Non-Mgrs.*	*Middle Mgrs.*	*1st-line Supv.*	*Non-Mgrs.*	*Middle Mgrs.*	*1st-line Supv.*	*Non-Mgrs.*
Years TQM Process Is In Place									
8 years or more	68%	74%	63%	63%	58%	37%	53%	53%	31%
5 – 7 years	72	58	47	53	44	28	50	36	22
2 – 4 years	67	55	45	45	28	26	24	26	17
1 year or less	57	48	28	48	28	24	28	29	14
Total	67	58	46	51	38	28	37	34	20

problem areas and create action plans to make improvements (see Exhibit 9).

The longer TQM is in place, the greater the proportion of firms that link appraisal of first-line supervisors and nonmanagers to quality (see Table 18). Overall, more than 65 percent of the companies make it part of the review for senior and middle managers; about 60 percent appraise first-line supervisors for achievement in quality, and 46 percent include it in reviews of nonmanagers. Service firms are somewhat more likely to include nonmanagers as well as managers (see Table 19).

Compensation

Compensation is tied to quality in 60 percent of responding firms, but less than 50 percent cover all employees. Again service firms lag behind manufacturers in making the tie to compensation. However, a third of service firms include both managers and nonmanagers, compared to a quarter of manufacturers. Overall, 50 percent of the companies factor quality into compensation for senior and middle managers and about 40 percent include first-line supervisors. Nonmanagers are tied in by almost 30 percent of firms, and those with a TQM process of 8 years or longer are more likely to have done so.

Among firms placing themselves near the top of the Baldrige ranking, more than half tie quality to compensation for managers and supervisors and a third include nonmanagers. Those in the bottom half of the award-ready ranking have made only small strides in linking compensation to quality for supervisor and nonmanagers; but a third make that tie for managers.

Table 19: Linking Quality Achievement to Performance Measurement (Grouped by Industry Sector)

	All Companies (127)	*Manufacturing (85)*	*Service (42)*
Linked to:			
Performance Appraisal	**74%**	**75%**	**86%**
Managers & Nonmanagers	46	43	64
Managers Only	27	32	21
None	26	25	14
Compensation	**59**	**62**	**50**
Managers & Nonmanagers	27	25	31
Managers Only	31	38	19
None	41	38	50
Promotion	**45**	**46**	**41**
Managers & Nonmanagers	20	18	17
Managers Only	24	28	24
None	55	54	59

Promotion

Companies with a TQM track record are also moving down the organization chart in tying promotion to quality achievement. Well over 50 percent of the firms with the oldest TQM processes use this criterion with middle managers and first-line supervisors and 30 percent extend it to promotion of nonmanagers (see Table 18). However, nearly 60 percent of service firms and 55 percent of manufacturers do not yet link quality to promotion. Overall, in firms making the link, about 35 percent include managers and 20 percent include nonmanagers.

Promotion of managers and first-line supervisors is connected to quality in at least half of the firms in the top Baldrige group. Over a quarter also link quality to promotion of nonmanagers. Only a handful of those firms in the bottom half of Baldrige ranking link quality achievement to promotion for managers or nonmanagers.

As part of Xerox Corporation's management resources evaluation process, individuals are rated as "role model," "competent" or "needs work" on five mandatory requirements for management positions. These are: business results; leadership through quality; human resources management; teamwork; and corporate values. In assessing managers' readiness for promotion, executives to whom they report use personal

Exhibit 9: Measuring Leadership at Federal Express

From the beginning Federal Express has lived by a corporate philosophy PEOPLE-SERVICE-PROFIT. We measure continuous leadership improvement with one of our most effective quality program tools which is the SFA or **SURVEY-FEEDBACK-ACTION** program. The SFA program comprises the following:

1. **Survey:** An anonymous survey completed by all employees.
2. **Feedback:** A feedback session in which the employees in each workgroup use Quality improvement techniques to identify solutions to problems identified in the survey.
3. **Action:** An action plan which may serve as an ongoing Quality improvement plan for the People issues identified by the workgroup during the feedback session.

The survey instrument consists of a set of carefully developed questions about leadership (both Corporate and local management), about the employee's identification with Federal Express, about reward systems, about workgroup cooperation, and about job conditions. Survey results are provided as part of the continuous improvement process within Federal Express. Employees completing the survey are ensured individual anonymity. A representative of the Personnel Division administers the survey and forwards the completed surveys to the Human Resource Analysis (HRA) Department. Surveys are analyzed electronically and workgroup or composite results are provided to the manager. This report provides the basis for discussion for the workgroup during the feedback session. For workgroups with fewer than three members, workgroup results are not provided.

After each survey, managers must meet with their staff, as a group, within six weeks after survey results are distributed to discuss any problems identified, and are required to come up with a plan of action to resolve them. Survey results tell us where our leadership's strengths and weaknesses lie. Every year, SFA is used to diagnose corporate-wide leadership improvements needed.

The "action" phase of our annual employee attitude survey is a vital tool for helping managers surface potential workgroup problems. Some of these action plans have resulted in programs that have been implemented company-wide. For example, we added a Professional Incentive Compensation to our established Management Incentive program and a Performance Improvement program was initiated.

HOW TO ANSWER: Read each statement carefully. Then to the right of each statement mark the bubble which best expresses your agreement or disagreement with the item. Mark only one answer for each item, and remember to respond to all items. Remember that "workgroup" means all persons who report to the same manager as you do regardless of job title.

		Strongly Agree	Agree	Sometimes Agree/Disagree	Disagree	Strongly Disagree	Undecided/Don't Know
1. I feel free to tell my manager what I think.	1.	SA	A	AD	D	SD	U
2. My manager lets me know what's expected of me.	2.	SA	A	AD	D	SD	U
3. Favoritism is not a problem in my workgroup.	3.	SA	A	AD	D	SD	U
4. My manager helps us find ways to do our jobs better.	4.	SA	A	AD	D	SD	U
5. My manager is willing to listen to my concerns.	5.	SA	A	AD	D	SD	U
6. My manager asks for my ideas about things affecting our work.	6.	SA	A	AD	D	SD	U
7. My manager lets me know when I've done a good job.	7.	SA	A	AD	D	SD	U
8. My manager treats me with respect and dignity.	8.	SA	A	AD	D	SD	U
9. My manager keeps me informed about things I need to know.	9.	SA	A	AD	D	SD	U
10. My manager lets me do my job without interfering.	10.	SA	A	AD	D	SD	U
11. My manager's boss gives us the support we need.	11.	SA	A	AD	D	SD	U
12. Upper management (directors & above) lets us know what the company is trying to accomplish.	12.	SA	A	AD	D	SD	U
13. Upper management pays attention to ideas and suggestions from people at my level.	13.	SA	A	AD	D	SD	U
14. I have confidence in the fairness of management.	14.	SA	A	AD	D	SD	U
15. I can be sure of a job as long as I do good work.	15.	SA	A	AD	D	SD	U
16. I am proud to work for Federal Express.	16.	SA	A	AD	D	SD	U
17. Working for Federal Express will probably lead to the kind of future I want.	17.	SA	A	AD	D	SD	U
18. I think Federal Express does a good job for our customers.	18.	SA	A	AD	D	SD	U
19. All things considered, working for Federal Express is a good deal for me.	19.	SA	A	AD	D	SD	U
20. I am paid fairly for the kind of work I do.	20.	SA	A	AD	D	SD	U
21. Our benefit programs seem to meet most of my needs	21.	SA	A	AD	D	SD	U
22. Most people in my workgroup cooperate with each other to get the job done.	22.	SA	A	AD	D	SD	U
23. There is cooperation between my workgroup and other groups in Federal Express.	23.	SA	A	AD	D	SD	U
24. In my work environment we generally use safe work practices.	24.	SA	A	AD	D	SD	U
25. Rules and procedures do not interfere with how well I am able to do my job.	25.	SA	A	AD	D	SD	U
26. I am able to get the supplies or other resources I need to do my job.	26.	SA	A	AD	D	SD	U
27. I have enough freedom to do my job well.	27.	SA	A	AD	D	SD	U
28. My workgroup is involved in activities to improve service to our group's customers.	28.	SA	A	AD	D	SD	U
29. The concerns identified by my workgroup during last year's SFA feedback session have been satisfactorily addressed.	29.	SA	A	AD	D	SD	U

Source: Federal Express

Table 20: Baldrige Award Self-Rating and Satisfaction With Progress Toward Employee Involvement in TQM
(Grouped by Industry)

Level of satisfaction in:	Baldrige Award Self-Rating Almost there (75% or more)	Half to 75% of way	Less than half way
Manufacturing (N=84)			
Very/extremely	50%	24%	50
Moderately	46	59	46
Somewhat/not at all	4	17	4
Service (N=48)			
Very/extremely	67	27	11
Moderately	25	56	44
Somewhat/not at all	8	17	44

observations, consultations with others, and results from independent employee attitude surveys. To be eligible for promotion to the executive ranks, a manager must achieve "role model" status in quality. For all other managerial positions, an individual must be at least "competent" in quality.

Firms that tie achievement in quality to performance review and reward appear to have a somewhat less severe problem with negative attitudes towards quality among their managers than do those making no such link. Such ties seem to have little impact on the prevalence of negative attitudes among nonmanagers, perhaps because firms report less initial resistance to TQM among this group.

Gauging Progress

Participants were asked whether they had made a formal effort to evaluate their firms' progress toward successful employee involvement and what they considered their major successes to be. A third of the participants have conducted a formal evaluation. These firms employ many of the same devices used to gather employee feedback. They also study team participation rates, employee suggestion levels, and percent of employees involved in training efforts. Some firms use formal ratings systems, self-appraisal matrices, quality systems reviews and self-examinations using guidelines from awards programs such as Baldrige.

Among those making a formal evaluation, nearly 40 percent are "very" or "extremely" satisfied and 20 percent are only "somewhat" or "not at all" satisfied with their progress toward employee involvement. Of the group who have not made a formal assessment, only 20 percent are "well" satisfied.

Baldrige Criteria: How Much Progress?

Just as half the companies surveyed reported "moderate" levels of satisfaction with progress toward involving employees in TQM, the typical respondent reports being about half way toward achieving Baldrige award status. In fact, there appears to be a correlation between respondents' satisfaction with employee involvement and their Baldrige self-rating, especially among manufacturing firms. For example, among manufacturers rating themselves less than half way to award-readiness, only 4 percent report being highly satisfied with their progress toward involving employees in TQM (see Table 20).

Again, support from the top provides a critical edge. Both those respondents who estimate that their firms are approaching "world class" status and those scoring themselves in the lower half of the award ranking can count on a healthy level of support from nonmanagement employees. But leadership is a key Baldrige category and those firms giving themselves a high Baldrige rank report that they can rely on strong backing from the top of the organization. More than 80 percent report that top management actively endorses TQM, and 70 percent can count on strong support from senior managers. In contrast, only about 25 percent of the group at the bottom half of the ranking have won major support from top or senior managers, and few (15 percent or less) have enthusiastic backing at intermediate management levels (Table 21).

Table 21: Level of Support for TQM (Grouped by Baldrige Award-Readiness Self-Rating *) (N=135)

	Support by: Top Mgmt.		Senior Mgmt.		Middle Mgmt.		1st-Line Supervisor		Non-Mgmt.	
	High	Low	High	Low	High	Low	High	Low	High	Low
Baldrige Award-Readiness Self-Rating										
Less than half way	26%	26%	23%	25%	11%	36%	15%	33%	44%	7%
Half to 75% of way	53	18	48	10	31	22	24	12	41	6
75 to 100% of way	82	0	68	0	28	10	31	15	56	8
Total	52	13	45	13	23	24	23	20	47	7

* Firms responding "moderate" were eliminated.

Table 22: Impact of Negative Attitudes on TQM Implementation (Grouped by Baldrige Award-Readiness Self-Rating) (N=136)

	Managers: Impact is			*Nonmanagers: Impact is*		
	Great/ Very Great	*Moderate*	*Minor/ Negligible*	*Great/ Very Great*	*Moderate*	*Minor/ Negligible*
Baldrige Award-Readiness Self-Rating						
Less than half way	47%	42%	11%	21%	38%	40%
Half to 75% of way	37	40	23	13	49	38
75 to 100% of way	32	32	36	14	33	52
Total	39	38	23	16	40	43

Thus, the the top-down process has yet to work for those firms in the lower half of the Baldrige ranking. Almost half say that negative attitudes among managers cause difficulty (Table 22). This is true for only a third of those near the top of the ranking. "The principal difficulty is the degree to which management at all levels recognize the need for a fundamental change in their own behavior from the way they were trained, rewarded and promoted," says an executive from an electronics firm.

Even 10 to 15 percent of the "world class" aspirants have low levels of buy-in from middle managers and first-line supervisors. And middle managers are holdouts in 20 percent of firms that rate themselves between half and 75 percent of the way to award status. During the transition to TQM, these intermediate management layers are at the pressure points. They are encouraged to empower those they supervise, to share some of their responsibilities with workers, to improve quality, but "reward and promotion is still tied to the bottom line, not to quality," notes an executive who rates his firm 65 percent of the way to award status. "At first it is more on top of an already full plate. Then 10 percent say it doesn't apply to them. Another 10 percent say they already do quality work," says a manufacturing executive whose company plans to apply for the Baldrige Award soon.

Table 23 on page 38 summarizes how prevalent quality-related communications, training, team involvement, recognition and rewards are in firms at differing stages of Baldrige award-readiness. Those close to "world class" status are ahead of the low-ranking firms on all measures and outstrip the next group on most measures. However, the top group stands out for its use of management review meetings, long-term teams, focus groups, and links between quality achievement and compensation and promotion.

Testimony to Success

In open-ended comments, survey respondents listed a wide range of accomplishments. As might be expected, these vary with the maturity of the TQM process (see box). Since measurement is a key element of a credible TQM process, several firms itemized measurable results:

Achievements Grow as TQM Process Matures

Time Process In Place	*Major Successes Since Process Began*
Under 1 year	"Creating a Corporate Quality Director position and committing to begin a formal process."
	"Motivation of lower-ranking employees; they tend to be more sincere."
1 year	"Initiation of a strategic planning process focused on Quality program implementation."
	"Buy-in from upper management; enthusiasm from middle managers; successful combination of training management and contractuals; general improvement in attitudes where training and quality circles have been implemented."
2-3 years	"Starting company-wide team training project after institutionalizing participative management."
	"Over 50 percent of the company has been through a quality training program. The number of teams, approved team recommendations and cost savings continue to increase."
5 years	"Team involvement at lower levels and a good start in white collar areas."
	"Tapping into the talents of front-line associates; Involving the mass of the work force on a common focus; reeducating our management to support the needs of line associates; control charts to map and control process variability." This last technique "will eventually separate the long-term quality processes from the 'flash in the pan' ones."
8 years	"Major increase in market share, directly tied to quality improvement."
9-11 years	"Significant improvement in customer satisfaction and corporate performance."
	"Proceeding according to plan: High level of employee commitment, high level of management participation."

Table 23: Summary of Baldrige Award-Readiness Self-Rating Estimates (Grouped by Communication, Involvement, Recognition and Performance Measurement Practices)

	Baldrige Self-Rating*		
	Almost there (75% or more)	*Half to 75% of way*	*Less than half way*
TQM Practice:			
Planned Communication Campaign			
Articles in employee publications targeting:			
All employees	55%	47%	39%
Managers only	29	24	12
Top management letters/memos	17	7	9
Special brochures	36	35	19
Videos	33	40	26
Conferences/Rallies	45	44	19
Involvement			
Periodic meetings with top management	93	79	52
Formal training	93	83	78
Short-term teams	93	88	86
Long-term teams	60	42	20
Opinion/attitude surveys	77	65	65
Communication audit	33	21	22
Focus groups	65	54	37
Employee suggestion program	65	65	45
Awards to:			
Individuals	92	89	79
Teams	95	89	71
Units/Plants	94	76	49
Tie quality achievement in middle managers to:**			
Performance appraisal	79	72	54
Compensation	56	60	33
Promotion	61	35	15

* Table base varies.

** See Table 17 for information on other layers of management.

- "97 percent natural teams meeting; 90 percent of natural teams measuring results; 100 percent of employees trained in statistical process control and 75 percent trained in team management; multiple efforts yielding dollars and improved customer satisfaction"

  — *a chemical company*

- "reduced cost of poor quality by over $50 million; 99 percent customer satisfaction with products and services; ability to make change more readily"

  — *a computer company*

A respondent from a computer firm emphasized the importance of concrete outcomes, noting that the firm "integrated quality with the other standards by which the business is conducted (e.g., financial, strategic planning). The focus is on results, not 'rah-rah' activity. There is a direct impact on improving the business processes."

Firms also report a mix of quantitative and qualitative gains, with a consumer goods company citing "Improved communication (internally and externally), reduced rework, lower absenteeism, productivity gains, better supplier relations and labor relations." A banking executive counted successes in "involvement, teamwork, motivation, communication, as well as measured improvement in quality and customer service, cost savings and revenue enhancement, customer retention and profitability" among the outcomes of the TQM process. Customer satisfaction was a significant TQM boon in the eyes of many respondents, noted by such comments as: "We've won awards from customers and are increasing our ability to meet customer expectations," and "We have improved client retention."

Successful Involvement: Not Easy, But Doable

Managing for continuous improvement and customer satisfaction in a rapidly changing environment is hard work. Results from this study suggest that those looking to TQM for a quick fix are likely to be disappointed. Each stage in the maturation process has its hurdles. "It starts with skepticism and distrust, moves toward doubt about resolve, and ends with frustration over tools," says a seasoned, but satisfied, practitioner.

Patience, leadership, and the ability to nurture a long-term commitment to TQM are crucial to promoting and enlivening the buy-in process. Successful firms are much more likely to use specialized communication campaigns, management review meetings, and focus groups than are respondents who profess dissatisfaction with their firms' progress (see Table 24). Quality executives hope that members of their top management will continue to operate as "quality fanatics," in the words of one respondent. But they are also helping their firms to institutionalize TQM through the use of long-term teams and by linking quality to compensation and promotion.

Despite the frustrations accompanying the major culture change that TQM requires, respondents report encouraging results. Those who experienced success appear to be balancing process and results using a strategy that blends short-, intermediate- and long-term goals. For example:

- Communications and training are used to stimulate cultural change in the short term and to equip managers and employees with the tools of quality and successful role models in the intermediate and long term.
- Teams help to generate cost savings, promote innovation and organize involvement activities initially, and to establish a continuous improvement process over the long term.

Table 24: Summary of Levels of Satisfaction With Progress Toward Involving Employees in TQM
(Grouped by Communication Involvement, Recognition and Performance Measurement Practices)

	*Level of Satisfaction**	
TQM Practice	*Very/ Extremely*	*Somewhat/ Not At All*
Planned Communication Campaign:		
Articles in employee publications targeting:		
All employees	55%	39%
Managers only	44	38
Top management letters/memos	20	12
Special brochures	54	37
Videos	61	40
Conferences/Rallies	75	54
Involvement:		
Periodic meetings with top management	90	53
Formal training	90	71
Short-term teams	93	82
Long-term teams	63	18
Opinion/attitude surveys	83	62
Communication audit	37	15
Focus groups	76	26
Employee suggestion program	61	53
Awards to:		
Individuals	80	62
Teams	83	56
Units/Plants	66	44
Tie quality achievement in middle managers to:**		
Performance appraisal	80	35
Compensation	63	23
Promotion	56	15

* Table base varies; companies responding "moderately" satisfied are eliminated.

** See Table 17 for information on other layers of management.

- Enthusiasm of nonmanagerial employees is harnessed through suggestion programs and teams. Success stimulates increased involvement and helps to persuade those in intermediate management layers that TQM can yield bottom-line results. Recognition and award programs are put in place early and expanded to teams and business units as the TQM process matures.

- To address the "resolve" factor and demonstrate commitment to results, top management is linking quality achievement to performance appraisal and reward systems. This appears to be critical to buy-in at intermediate layers of management. Such ties help to overcome the thinking described by an executive from a consumer goods firm: "Quality is not for me; I don't get any pluses for doing it; there are no minuses if I don't do it."

Survey respondents see TQM as a long-term investment in retaining their firms' competitive edge. Commenting on progress-to-date, a quality executive from an insurance firm notes: "We have achieved higher levels of awareness that Quality is the survival issue for the 1990s and beyond." Yet, even those firms registering the most success with management and employee buy-in are anticipating the next TQM challenge. Involvement, they note, is not an end in and of itself, but the means to realizing larger corporate goals. Ultimately, they hope that the institutionalization of a TQM process can be measured through continuing customer retention, competitive success and profitability.

Appendix: Excerpts From Quality Award Programs

from the *1990 George Westinghouse Total Quality Awards Application Guidelines*

AWARDS PROCESS AND REQUIREMENTS SUMMARY

CATEGORIES

"Best" Total Quality Performance

The Award for "Best" performance refers to the year ending June 1, 1990. Trend information covering several preceding years may be included for the Judges' and Examiners' use, but the Award will be given for the applicant's performance status as of the time of application.

"Most Improved" Total Quality Performance

"Most Improved" applications will be judged on the amount of improvement achieved in two years ending June 1, 1990. Applicants for the "Most Improved" Award must establish a **clear benchmark** from which to report their improvement. Benchmarking data may include a Total Quality Fitness Review, other outside reviews which report against criteria comparable to the Conditions of Excellence or the results of a previous year's report on a GWTQA Application. **In addition to any of the above,** the applicant must clearly establish, using as much specific, quantitative data as possible, where their organization stood at the beginning of the evaluation period, what was done to improve, and where they stand as of June 1, 1990.

ANNUAL AWARDS

An Award plaque, plus a cash award of $200,000 in each category for unrestricted use by the winning organization, in any way approved by the Chairman.

Judges have the option of not making an Award in either or both categories if applications do not merit them.

ELIGIBILITY

The Awards are intended for organizations no smaller than a division or equivalent unit. However, eligibility based on size of the applying organization is to be judged by the Corporate Total Quality Council (consisting of the Chairman's Advisory Council).

Subsidiary company and joint-venture company participation is limited to Westinghouse majority-owned units.

Two candidates in each category may be submitted to the Corporate competition by members of the Corporate Total Quality Council from their respective organizations. Group or Business Unit internal evaluations shall be used to select Corporate candidates.

Corporate winners in each category are ineligible to compete in that category for two succeeding years.

Commercial Nuclear Fuel Division is not eligible to compete in the "Best" category in 1990 because of having won the Baldrige Award in 1988.

The Productivity and Quality Center is ineligible to compete due to its administrative role in the processing of applications for these Awards.

An organization (division or equivalent unit) may not compete in both categories in the same year.

The winner in the "Best" category will receive strong consideration as the Westinghouse candidate in the Malcolm Baldrige Award competition in 1991.

EVALUATION CRITERIA

The applicant's Total Quality improvement efforts will be compared to the Westinghouse Conditions of Excellence for Total Quality by the Board of Examiners. Three factors will be used to evaluate applications: the degree to which the APPROACH used in each criteria is a Total Quality one and is integrated across all functions, the breadth and depth of IMPLEMENTATION of each criteria and subcriteria in all parts of the organization, and the quality and magnitude of the RESULTS achieved. The winner in the "Best" category will be the one demonstrating the best Total Quality performance. The "Most Improved" winner will be the one which has achieved the most improvement during the two years ending June 1, 1990.

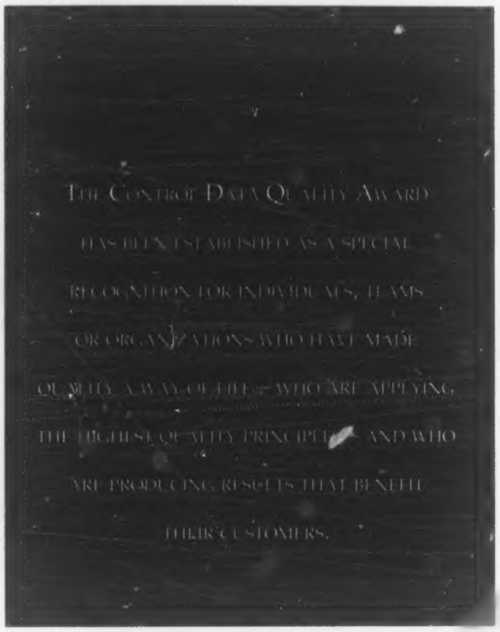
from the *1990 George Westinghouse Total Quality Awards Application Guidelines* (continued)

SCORING MATRIX

TO BE USED IN EVALUATING EXAMINATION CRITERIA

	APPROACH	**IMPLEMENTATION**	**RESULTS**
	• Total Quality process based. • Breadth of integration across all functions. • Innovation evident in approach.	• Breadth of implementation. (Areas or functions). • Depth of implementation (Ingrained in people).	• Quality of measurable results. • Payoff of the approach.
100 %	• World-class approach: sound, systematic, effective, Total Quality based, continuously evaluated, refined and improved. • Total integration across all functions. • Proven innovations.	• Fully in all areas and functions. • Ingrained in the culture.	• Exceptional, world-class, superior to all competition; in all areas. • Sustained, clearly caused by the approach.
80 %	• Well developed and tested, Total Quality based. • Excellent integration. • Innovative.	• In almost all areas and functions. • Evident in the culture of all groups.	• Excellent, sustained in all areas with improving competitive advantage. • Much evidence that they are caused by the approach.
60 %	• Well planned, documented, sound, systematic, Total Quality based; all aspects addressed. • Good integration.	• In most areas and functions. • Evident in the culture of most groups.	• Solid, with positive trends in most areas. • Some evidence that they are caused by the approach.
40 %	• Beginning of sound, systematic, Total Quality based; not all aspects addressed. • Fair integration.	• Begun in many areas and functions. • Evident in the culture of some groups.	• Some successes in major areas. • Not much evidence that they are caused by the approach.
20 %	• Beginning of Total Quality awareness. • No integration across functions.	• Beginning in some areas and functions. • Not part of the culture.	• Few or no results. • Little or no evidence that they are caused by the approach.
0 %			

from 1991 *Control Data Quality Award* brochure, Control Data Corporation



THE CONTROL DATA QUALITY AWARD
HAS BEEN ESTABLISHED AS A SPECIAL
RECOGNITION FOR INDIVIDUALS, TEAMS
OR ORGANIZATIONS WHO HAVE MADE
QUALITY A WAY OF LIFE — WHO ARE APPLYING
THE HIGHEST QUALITY PRINCIPLES AND WHO
ARE PRODUCING RESULTS THAT BENEFIT
THEIR CUSTOMERS.

The next step in Control Data's quality journey is to integrate processes for continual improvement into the day-to-day operations of all Control Data businesses. The future of quality at Control Data depends on each business and each employee seeing that quality is directly linked to survival....There is no destination on this journey, but that of ever-higher levels of customer satisfaction.

Larry Perlman

LARRY PERLMAN
PRESIDENT & CHIEF EXECUTIVE OFFICER
CONTROL DATA CORPORATION

RECOGNITION

Recipients of the Control Data Quality Award will be honored throughout Control Data for their contributions and achievements.

Recipients will be announced at the annual Control Data Quality Symposium in October.

Control Data Quality Awards will be presented to the recipients at a reception and dinner in their honor following the symposium.

SCHEDULE

- Applications must be received by May 15, 1991.
- Examiner evaluation of applications is completed by August 31.
- Site visits to potential recipients are conducted in September.
- Recipients are announced in October.
- Feedback reports are sent to all applicants in October.

from 1991 *Control Data Quality Award* brochure, Control Data Corporation (continued)

HOW TO APPLY

The Application Guideline contains all the information necessary to submit an application for this award. The Guideline contains the application submission form, instructions on how to prepare written and graphical material, the scoring criteria for all categories of evaluation and where to send the completed application.

The Application Guideline and additional copies of the *1991 Control Data Quality Award Brochure* are available from Corporate Quality. Send your request by interoffice mail to HQS14Q or call CN 321-3372, (612) 853-3372, or fax CN 321-5300.

IMPORTANT FACTS ABOUT THE CONTROL DATA QUALITY AWARD

OBJECTIVE

The Control Data Quality Award honors those who use quality tools and practices to achieve or improve customer satisfaction and who provide an inspiration and role model to all.

APPROACH

Key criteria for evaluation of applications includes analysis of:

- ***WHY*** a particular problem or opportunity was chosen and how it addresses the customer's need.
- ***HOW*** the effort was accomplished and what implementation tools and techniques were used.
- ***WHAT*** results were obtained and the significance of those results to the customer, business unit or organization.

IMPLEMENTATION

The award recognizes overall contribution in the following four key areas:

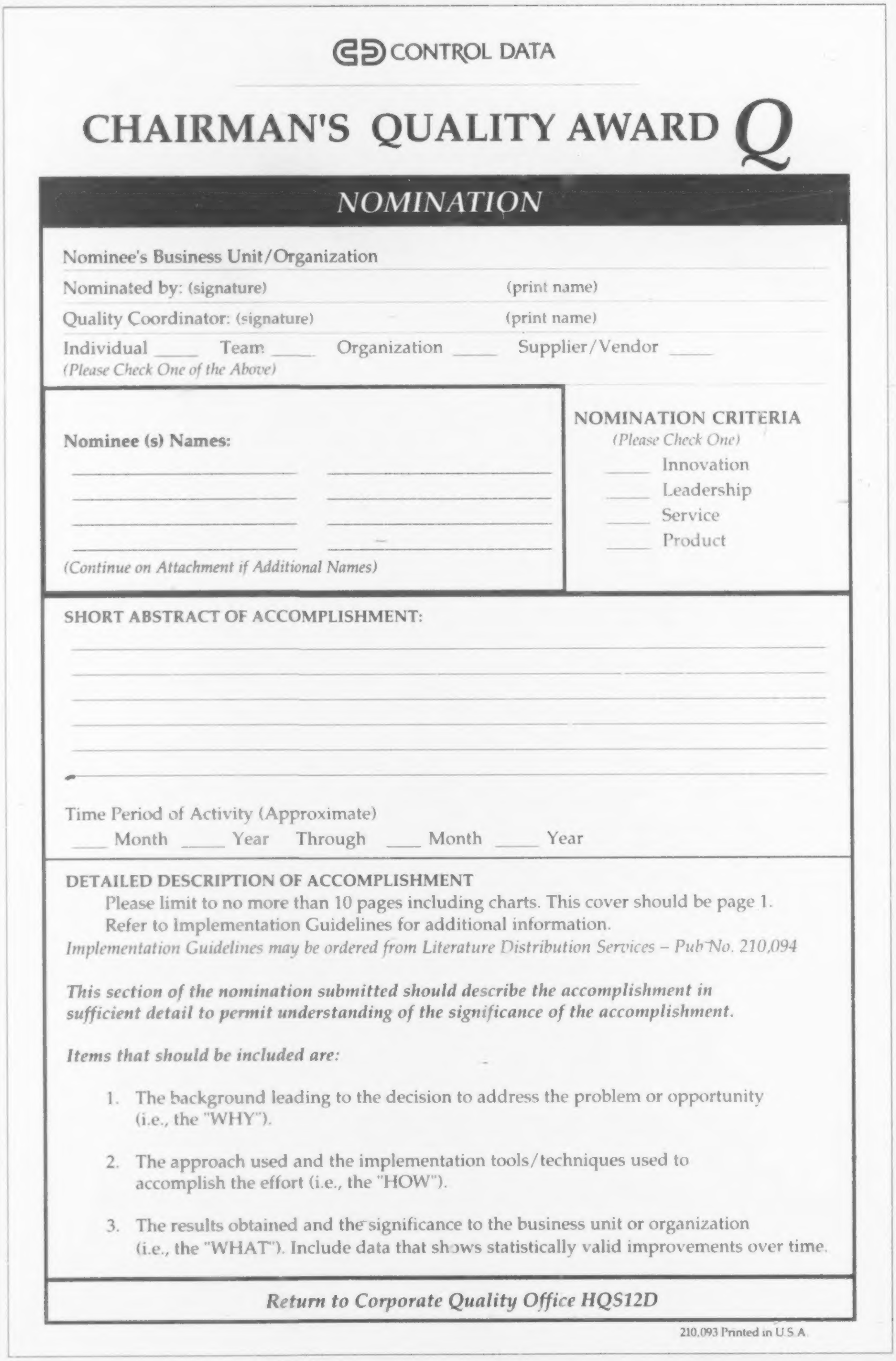
Innovation This award will be made to business units, divisions, organizations, teams or individuals whose activity best represents a significantly innovative quality contribution. Creative and original technical, marketing or administrative achievements and novel process changes or methods are among candidates for awards in this category.

Leadership This award will be made to business units, divisions, organizations, teams or individuals who have exhibited exceptional personal or organizational commitment to continuous quality improvement. These recipients will have earned a reputation for leadership in quality principles and will have demonstrated measurable results.

Service This award will be made to business units, divisions, organizations, suppliers, teams or individuals who achieve outstanding ***service*** quality through the application of quality principles. A key component is customer satisfaction, both internal and external.

Product This award will be made to business units, divisions, organizations, suppliers, teams or individuals who achieve outstanding ***product*** quality through the application of quality principles. A key component is customer satisfaction, both internal and external.

Application Form, Control Data Corporation



CONTROL DATA

CHAIRMAN'S QUALITY AWARD Q

NOMINATION

Nominee's Business Unit/Organization

Nominated by: (signature) (print name)

Quality Coordinator: (signature) (print name)

Individual ____ Team ____ Organization ____ Supplier/Vendor ____

(Please Check One of the Above)

Nominee (s) Names:

(Continue on Attachment if Additional Names)

NOMINATION CRITERIA

(Please Check One)

____ Innovation

____ Leadership

____ Service

____ Product

SHORT ABSTRACT OF ACCOMPLISHMENT:

Time Period of Activity (Approximate)

____ Month ____ Year Through ____ Month ____ Year

DETAILED DESCRIPTION OF ACCOMPLISHMENT

Please limit to no more than 10 pages including charts. This cover should be page 1.
Refer to Implementation Guidelines for additional information.

Implementation Guidelines may be ordered from Literature Distribution Services – Pub No. 210,094

This section of the nomination submitted should describe the accomplishment in sufficient detail to permit understanding of the significance of the accomplishment.

Items that should be included are:

1. The background leading to the decision to address the problem or opportunity (i.e., the "WHY").
2. The approach used and the implementation tools/techniques used to accomplish the effort (i.e., the "HOW").
3. The results obtained and the significance to the business unit or organization (i.e., the "WHAT"). Include data that shows statistically valid improvements over time.

Return to Corporate Quality Office HQS12D

210,093 Printed in U.S.A.

Related Conference Board Publications

Quality Training: What Top Companies Have Learned, Report No. 959, 1991.

Global Perspectives in Total Quality, Report No. 958, 1991.

Making Total Quality Happen (Conference highlights), Report No. 937, 1990.

The Road to Total Quality, Research Bulletin No. 239, 1990.

Current Practices in Measuring Quality, Research Bulletin No. 234, 1989.

Total Quality Performance (Conference highlights), Report No. 909, 1988.

The Conference Board
845 Third Avenue
New York, N.Y. 10022

R 4105-78.11 F 10/91

The Conference Board

Report Number 977

Global Presence and Competitiveness of U.S. Manufacturers

Conference Board proprietary database of
U.S. manufacturers shows how:

- *global presence aids survival, growth and profits*
- *firms with fewer competitors do better*
- *R&D abroad goes with superior performance*
- *Pacific Rim operations mark fastest growing companies*

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Printed in the U.S.A.
ISBN No. 0-8237-0424-6

This document is printed on recycled paper.

Global Presence and Competitiveness of U.S. Manufacturers

by Charles R. Taylor

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Acknowledgments

The author wishes to acknowledge David Kramer, Kenneth Goldstein, Tamsen Hernandez and David Chon for their advice and assistance on survey and data processing; Nicholas Afonsky and Dave Gartenberg for research assistance; and Perry Quick, National Director of Tax Analysis and Economics at Ernst and Young, for manuscript evaluation. A special recognition should also go to Yvonne Burnside, who maintained the high quality of the data for many years making the report possible; Lucie Blau for careful review of the data; Derrick Willman, for chart Design; Margaret Hart and Elizabeth Miranda for exceptional support in editing the manuscript; and Jim Burgess for limitless patience during its preparation.

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From the President

The decade of the 1980s was one of enormous change for American manufacturers; foreign competitors entered U.S. markets while U.S. firms expanded abroad. This increase in international activity was prompted in part by efforts to focus on product market segments that were narrowly defined while achieving economies of scale. Leadership in global markets became increasingly important for long-term growth and stability.

But how active are U.S. manufacturers in the global marketplace? Is it necessary to operate globally to improve growth and profitability? What are the world markets in which U.S. firms operate?

This study, directed by Gail D. Fosler, Vice President and Chief Economist of The Conference Board, addresses these and other strategic issues using a proprietary Conference Board database. This database describes the extent and type of international activity of U.S. multinationals over the decade of the 1980s and measures their sales and profitability relative to their domestic counterparts.

The dynamics of the 1990s may be different from the 1980s, making success abroad more difficult to achieve. The political environment may not be as welcoming to free trade, and the global marketplace is certain to become increasingly crowded with foreign competitors. Yet, as this study shows, global involvement is a gateway to both profitability and growth.

PRESTON TOWNLEY
President and CEO

Definitions and Data Interpretation

I. Definition of the Database

This study is based on The Conference Board's U.S. Manufacturing database. This database covers the universe of all companies publicly quoted on U.S. exchanges—and therefore registered with the SEC—with sales exceeding $10 million. It is developed, in large measure, from the Multinational Register survey that has been conducted annually by The Conference Board since 1978. This survey was supplemented with information from 10Ks and annual reports in order to provide a data set for all companies in the universe. This database represents the vast majority of major U.S. manufacturers (i.e., those with more than 500 employees) and well over two-thirds of total worldwide U.S. manufacturers' sales. As such, the database is a rich source of information about the experience of U.S. manufacturers during the 1980s.

Included in the database are the names and addresses of the companies; growth in U.S. and worldwide sales; 3-digit Standard Industrial Classification (SIC) codes for industry activities; whether or not they export and how much; countries and regions in the world in which they are active; and the type of global activity they conduct (e.g., joint ventures, licenses, research and development, and foreign production plants). In addition, financial measures such as earnings per share and return on total assets (also derived from 10Ks and annual reports) are included in the database. These measures were provided by Media General Financial Services.

II. Data Quality and Limitations

Data from the database for the years 1979 and 1989 were used as the basis of this study. Data quality contains some limitations regarding accuracy. Company responses, for example, were accepted at face value and not checked against company documents to verify accuracy. Moreover, some companies did not report certain kinds of activity—such as location or type of country activity or joint ventures abroad—so that some activity counts are low. Also, the financial data refer to stocks not companies; and, in a few cases, data on one class of stock did not match those on another. Finally, companies are considered "survivors" and are compared over time only if they are reported under the same corporate identity. If a company remained under the same corporate ownership but changed its name during the decade, the database would count it as two different firms.

Much of the statistical analysis is aggregated for presentational purposes to the 2-digit SIC level. A listing of 2- and 3-digit SIC industries is contained in Appendix Tables 1 and 2. It should be noted that 3-digit SIC classes represent a high level of aggregation, and SIC classifications often do not conform to either product types or product markets. However, the SIC designations are suggestive in a general way of the type of activities and industries in which companies are involved. Appendix Table 3 lists the countries and regions covered in The Conference Board database.

III. Definition of Terms

What are some of the terms used in the study and how are they defined? For example, what does it mean to be "multinational"? What is "fewness" and how is it measured? How does this study gauge "success"?

The Conference Board database defines as **"multinational"** firms that have foreign plants or foreign sales; they may also engage in exports from the United States, joint ventures, or other types of alliances, but these activities alone are not enough to qualify as multinational. These firms are considered to be domestic.

For the purpose of this study, multinational firms are those which have extended their organization and other operations to other countries. They may be "global" in the sense that they have a "borderless" corporate culture and they tailor their production and markets to local needs; but the data from The Conference Board database do not provide this sort of organizational insight. The data simply identify the location of their worldwide operations, but do not describe them. Therefore, it is impossible to determine whether these multinational firms operate strategically as truly "global" firms. Clearly, these firms are more than merely international, however, in that they have committed their organizations to operate "on the ground" in foreign countries rather than to hold these markets at arms' length.

An industry has **"fewness"** when there are a small number of U.S. firms operating in it. An industry that has "fewness" may also be highly concentrated (in the sense that a small number of firms may account for a large share of sales), but a degree of concentration cannot be measured within the limitations of this database.

"Success" in this study is measured in terms of sales growth and shareholder return. Good management, innovation, and a focus on quality are treated as factors that contribute to superior performance rather than as "success" measures themselves.

Specifically, profits and sales growth are measured in the following way:

- **profits:** earnings before interest and taxes divided by total assets, averaged over the five years 1986 to 1990—a measure of a company's sustained efficiency.
- **sales growth:** growth of dollar value of worldwide sales over the 10 years 1979 to 1989—a measure of a company's sustained dynamism.

IV. Estimating Sales by Industry

In The Conference Board survey, companies reported their worldwide sales and the 3-digit SIC industries in which they were active. The level of sales by industry in each company was not reported. For this study, sales are assumed to be divided equally among the 3-digit industries in which a company was active.

Although this would seriously misrepresent the distribution of worldwide sales in a particular industry for any single firm, it is unlikely to cause major distortions in the relative sales among industries at the 2-digit industry level. If there were any systematic bias, the tendency would be to overstate sales in small industries and, therefore, underestimate the extent of structural change depicted in Chart 2. However, to the extent that large firms have only a very small share of their activity in one or a few SIC groups, the process of allocating sales equally across SICs may create significant distortions.

The SIC classifications were revised in 1987. In particular, computers were shifted from SIC 35 (machinery, except electrical) to SIC 36 (electric and electronic equipment). This may well account for a significant part of the growth in SIC 36 as shown in Chart 2, but it is unlikely to change the overall pattern, as discussed in the text.

V. Estimating Sales by Region

The estimates of the distribution of sales across regions and countries is based on the countries in which multinational firms reported they were active. First, a company's sales were equally divided between the countries in which it reported operations. Each company's sales in that country were then added to create a country total and the countries in that region were added to develop a regional total.

Just as the method for dividing sales equally across industries may lead to an overestimate for the sales share of small industries, so too this method may lead to an overestimate of the sales share in small countries. Moreover, the same problems arise as in distributing sales equally by industry where large firms have only minor operations in a given country. Indeed, at first glance, it seems there is a greater danger of misrepresenting the true distribution of worldwide sales because companies may operate in many countries without selling in them through regional distribution, offshore manufacturing, or overseas research and development activities. Fortunately, most of the study relies on the specific regions or the number of countries in which a firm is active, and these are reported in a straightforward manner in the database.

Still, to test for possible bias in this method for estimating sales by region, actual data on country sales from the annual reports were compared with the study method. The actual distribution of worldwide sales for a sample 40 companies selected randomly from The Conference Board database was compared to the distribution that would have resulted from the study method. While the results from this sample conform closely to the results of the study method, the sample does suggest that companies have a larger share of their sales in the Pacific Rim, and a much smaller share of sales in South Asia than the study method estimates. In the sample, the relatively small share of sales activity in South Asia, compared with the study method, is probably due to the fact that most companies produce but do not sell in South Asia.

VI. Measuring "Fewness"

"Fewness" is the average number of competitors a company faces within The Conference Board universe, across the 3-digit SIC industries in which it is active. A high value means that it has many competitors; a low value means that there are few competitors. "Fewness" is measured by estimating the number of competitors in each 3-digit SIC class and then averaging them at the 2-digit level.

Executive Summary

The 1980s was a decade of dynamic change for U.S. industry. Many businesses failed, merged, or thrived and developed as their traditional lines of business evolved. This report identifies some of the common characteristics of U.S. manufacturing firms, the extent of their global involvement, and some of the strategies they used to extend their global operations not only to survive but also to succeed during the 1980s.

The vast majority of U.S. manufacturers have some form of global presence — through exports, strategic alliances, joint ventures, or as part of a committed strategy to sell in foreign markets or locate production plants abroad. Unfortunately, there are few generally acceptable definitions to describe businesses according to their degree of commitment to the global marketplace. This is hardly surprising in view of the fact that "multinationality" has many dimensions and may be considered from any of several perspectives, including economic, political, legal and managerial.

For the purpose of this study, however, firms that have either foreign sales or production plants are defined as "multinational"—all others are considered domestic even if they export or engage in some form of international alliance—such as joint ventures or license arrangements. In a broader sense, many of these firms may be "global" in that they are organized and managed without respect to national borders, and tailor and target their products to local markets. However, the study data provide information only on the pattern of company activity and do not offer many insights into management or product strategy.

Looking ahead to the decade of the 1990s, change and the expectation of change appear to be two of the few strategic certainties. This study documents the changing environment for U.S. manufacturers during the past decade, and distills some strategic lessons from the experiences of successful firms for the decade ahead. Discussion is based on a proprietary Conference Board database of all publicly traded U.S. manufacturing companies with annual sales over $10 million. Key findings are:

- **The 1980s was a turbulent period.** Of the 1,928 firms in the universe in 1979, nearly 1,200 disappeared through failures, mergers, acquisitions or through being taken private or other changes in their corporate identity. However, by 1989, another 748 had appeared from divestitures, going public or growth past the $10 million sales mark.

- **U.S. manufacturing is increasingly global.** Firms with foreign plants or sales (i.e., multinational firms), accounted for 53 percent of the total number of firms and 89 percent of the worldwide sales of all companies in the The Conference Board universe in 1989.

- **U.S. manufacturers extended their global reach during the 1980s.** Over half of all companies that reported country activity in both 1979 and in 1989 increased the number of reported countries in which they operated. Among the 444 multinational companies that survived the decade, those operating in 10 or more countries rose even faster — from 15 to 20 percent between 1979 and 1989.

- **Global reach is important to survival.** During the 1980s, multinational companies were 50 percent more likely to survive under the same corporate identity than were domestic companies.

- **Multinational firms are more profitable and grow faster.** Among the 20 major industry categories covered in the study, multinational firms grew faster than domestics in 19 industries; in 17 they were more profitable.

- **Global markets are increasingly characterized by "fewness" (i.e., there are only a few producers in each industry segment).** The average number of all competitors in specific industry segments dropped 45 percent—from 53 to 28 at the 3-digit SIC level—between 1979 and 1989.

- **"Fewness" is generally associated with increasing profitability.** A firm that achieves market leadership and has few competitors is likely to be more profitable than one which typically has many competitors or a small market share. This is true for both domestic and multinational firms. But the trend toward narrowly focused industry segments and markets often requires a global scope in order to achieve sufficient economies of scale.
- **The dynamic Pacific Rim was the single most important region for growth during the decade.** The Pacific Rim accounted for over 16 percent of worldwide sales in 1989 compared with 12 percent in 1979—while the share of companies active in this region grew from 31 percent in 1979 to 41 percent by 1989. Not only have U.S. companies extended their operations into the Pacific Rim and Southeast Asia, but they also have been rewarded in terms of superior sales growth for doing so. The Pacific Rim and Europe were the only major regions in which **both** the share of firms and the share of worldwide sales increased.
- **Research and development abroad is closely related to both growth and profitability.** Joint ventures and licensing are important strategies, and both are profitable—although each may have different implications for growth. Nonetheless, of all the various types of international activity, R&D abroad stood out as the distinguishing characteristic of successful multinational firms.
- **Outstanding firms, that is those firms that are both the fastest growing and most profitable, combine many of the above characteristics.** These firms are large and overwhelmingly multinational; they have more than twice the share of their chosen markets than the average firm. They are concentrated in the capital goods and electronics industries; they are more than twice as likely to have operations in the Pacific Rim, and they are also more active than average in Europe. They frequently engage in R&D outside of the United States. These companies do, however, appear to compete in markets with almost twice the number of competitors as the average firm. It is unclear whether this lack of "fewness" is due to the limitations of data, which identify industries only at the 2- and 3-digit SIC level, or whether this is a true representation of the highly dynamic character of the industries in which these companies are found.

Many of these findings are not surprising. Still, the growth and profitability of companies active in the global marketplace underscore the importance of international competitiveness to sustaining a vital and viable U.S. manufacturing base. Indeed, the desirability and ease of establishing overseas operations places the United States in direct competition with other countries and regions, particularly in the Pacific Rim, for R&D and other high value-added activities.

Accordingly, this study has important implications for government policy. To the extent that the number of competitors in specific product markets is shrinking (i.e., these markets are characterized by "fewness"), global markets are increasingly driven by the strategic actions of individual competitors rather than the more general market forces of demand and price.

Subsidies or market barriers may therefore prevent U.S. companies from fully exploiting their technological advantage; may reduce the rate of return on U.S. R&D; and, in those cases in which products are moving up a technological ladder, may force U.S. companies out of important markets altogether. Both the sharp drop in the number of U.S. firms in The Conference Board universe over the decade and the even greater decline in the number of markets in which the average firm competes, suggest the extent of the competitive pressures U.S. manufacturers face.

These observations should not be interpreted as a prima facie endorsement of government intervention. Global markets, particularly in high-technology products, are dynamic while government policies are inherently static. Nonetheless, this study does weaken an important premise for limited government action—the notion of perfectly competitive global markets.

"Going global" may be more difficult in the future, depending on the results of the current round of GATT negotiations, and how relationships between the three emerging trade blocs—Europe, North America and the Pacific Rim—develop. Moreover, a global presence does not guarantee success; successful firms are those that have the human and capital resources and vision to be a player in world markets. Still, given the strong relationship between global presence and profitability and growth, even the most successful U.S. firms, like their foreign counterparts, will have to continue to confront head-on the competitive issues of product quality, segmentation, regional concentration and international organization—including the extent of R&D activities abroad—not only to succeed but also to survive in the years ahead.

The Forces Shaping Strategy

Global presence is not new to U.S. business. U.S. companies have always searched out opportunities abroad, particularly in the post-World War II period. By 1979, just under half of all U.S. manufacturers in The Conference Board's universe had important operations or activities overseas. These companies accounted for over 80 percent of the worldwide sales of the companies covered in the database. (See box, sections I, II and III, page 6, for discussion of the database and definition of terms used in the study.)

The Global Evolution of the 1980s

Still, U.S. companies continued to expand abroad during the 1980s and multinational companies continued to increase their standing within the U.S. manufacturing community. By 1989, 53 percent of all U.S. manufacturers in The Conference Board universe were global, accounting for 89 percent of total worldwide sales. Over half of all companies reporting country activity had increased the number of countries in which they operated.

Why were the 1980s an important decade for global activity? First, the technological, political, economic and structural changes during the 1980s encouraged globalization. For example:

- **Technology:** Transportation and communications costs fell dramatically and international operations became much easier to organize.
- **Politics:** Among the industrial countries, the political spectrum moved towards the right and narrowed; trade union influence diminished in many countries and labor relations improved. At the same time, many newly industrializing countries liberalized their political systems, promising greater political stability in the future. There were few parallel developments in most of the lower income developing countries until recently.
- **Exchange rates:** Increasing global trade during the 1980s meant that any company operating in more than one major currency had a powerful reason to invest abroad to try to match the currencies of its costs to the currencies of its revenues. That reduced the risk of losses solely due to currency movements.
- **Standards:** Different, more demanding technical standards were increasingly set both by customers and regulators. National and regional customer specifications, tastes, and requirements differed and evolved at different speeds. A company that kept up with developing demands in many national markets was more likely to be at the forefront of innovation. Firms with operations in Europe, for example, had a say in new industrial standards set by the European Community—providing an advantage over firms which only exported to that market.

Second, and probably more important, a global presence became increasingly important to economic survival. The 1980s were turbulent for U.S. manufacturing. During the decade, many companies failed, went private, or were acquired and merged. From 1979 to 1989, only 38 percent (or 742) of the manufacturing companies in The Conference Board universe at the beginning of the decade survived under the same corporate identity (see Chart 1). Some 750 new firms, however, did appear as a result of larger company divestiture, new incorporations and growth. (Appendix Table 4 shows the mix of domestic and multinational firms in The Conference Board universe in 1989 and the proportion active in each industry.)

Chart 1: A Decade of Change

	1979		1989		Survivors[1]	
	Number of Firms	*Percent of Sales*	*Number of Firms*	*Percent of Sales*	*Number of Firms*	*Annual Percent Growth of Sales*
TCB Universe	1,928	100.0%	1,490	100.0%		
Multinational[2]	941	82.1	786	89.4	444	8.8%
Domestic[3]	987	17.9	704	10.6	298	5.5
Survivors[1]	742	54.1	742	80.3	742	8.4

[1] Survivors are those firms operating with the same corporate identity in 1979 and 1989.

[2] Multinational firms are those with foreign plants or sales; exports alone are not sufficient.

[3] Domestic firms are those that are not multinational.

Reference: Appendix Tables 4 and 9

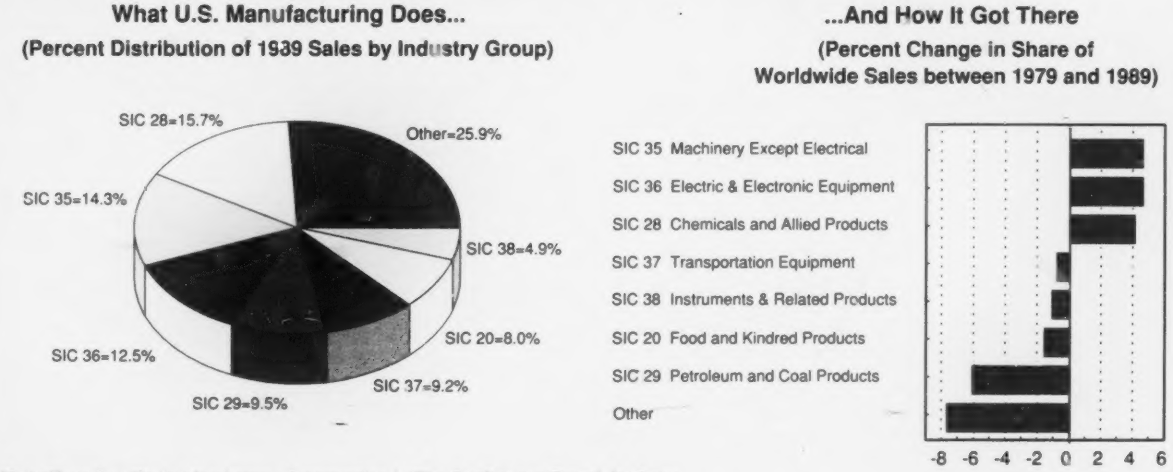
Over the decade, the total number of firms in The Conference Board universe shrank by about 20 percent to 1,490 companies. Total worldwide manufacturing sales for companies in the universe grew at only a 2.4 percent annual rate. Notably, survivor firms' sales grew at an 8.4 percent annual rate—almost four times as fast as the average growth in the universe, and about one-and-a-half times as fast as growth in domestic shipments for U.S. manufacturers as a whole.

During this period, a global presence was important to survival. Multinational firms not only grew faster but were also 50 percent more likely to survive the decade than domestic firms. The annual sales growth of surviving multinational firms was 8.8 percent compared with 5.5 percent for the surviving domestic firms. Just under 10 percent of domestic firms located plants or developed a local sales base abroad during the decade. Of the survivors at the end of the decade, 60 percent were multinational, whereas only 50 percent of firms had been multinational in 1979.

Indeed, given the apparent benefits, it is curious that globalization has not proceeded more rapidly. This may suggest that there are barriers to moving abroad or that a global presence, itself, does not confer success; rather, only companies that have sufficient human and financial resources can operate abroad successfully.

Third, manufacturers became increasingly multinational because both product markets and product technologies often required global scope. Production technologies were upgraded, more technology was embodied in products, and the mix of goods produced moved up the technology scale. Chart 2 shows that the

Chart 2: The Increasing Importance of U.S. High-Tech Industries


What U.S. Manufacturing Does...
(Percent Distribution of 1939 Sales by Industry Group)

...And How It Got There
(Percent Change in Share of Worldwide Sales between 1979 and 1989)

Note: Based on the total universe of companies in The Conference Board database.
Reference: Appendix Table 5

three broad groups which include many high-technology industries increased their share of total worldwide sales by 13 percentage points between 1979 and 1989. (See box, section IV, page 7, for discussion of the method of distributing sales by industry.)

During the 1980s, these three industry groups accounted for virtually all of the growth in sales and, by the end of the decade, these industries accounted for about 43 percent of all U.S. manufacturing worldwide sales covered in The Conference Board universe. This underscores the general importance of high-technology industries for U.S. manufacturing. (Appendix Table 5 shows the change over the decade in the number and composition of sales for all 20 of the 2-digit industry SIC classes.)

The Changing Global Pattern of U.S. Manufacturing

U.S. manufacturing firms are gradually extending their global reach. The average U.S. manufacturer, active in only four countries in 1979, was active in close to five countries in 1989 (see Chart 4). Among all companies reporting multinational activity in either year, the share operating in more than 10 countries increased from 9 percent to 13 percent. The number and geographic breadth of very large companies (in terms of sales) also increased during the decade. The largest companies operated in just over 50 countries in 1989 compared with only slightly over 30 in 1979. Among multinational companies only, the share of surviving companies in the universe operating in more than 10 countries increased from 15 percent in 1979 to 20 percent in 1989.

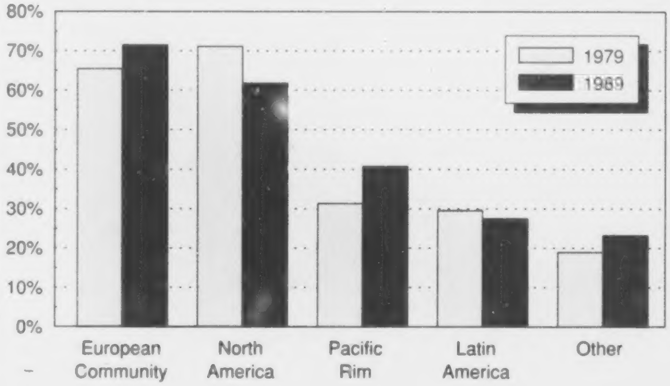
The most important global market for U.S. manufacturers is the European Community. More than 70 percent of multinational firms from The Conference Board universe operate in Europe, which accounts for about 42 percent of total worldwide sales. (See box, section V, page 7, for discussion of method of distribution of sales by region.) Not surprising, the two next most important regions are North America (Canada and Mexico) and the Pacific Rim. These are the regions that are either natural economic neighbors, as is the case with Canada and Mexico, or economically dynamic, as is the Pacific Rim.

Chart 3 shows that, among these regions, the Pacific Rim stands out as the one in which U.S. manufacturing activity has grown fastest both in terms of number of firms and share of worldwide sales. The share of firms operating in the Pacific Rim rose from 31 percent in 1979 to just over 41 percent in 1989 while the share of worldwide sales in the region increased from about 12 percent to 16 percent. (Appendix Table 6 shows the changing presence of U.S. firms by region and the pattern of their activity.)

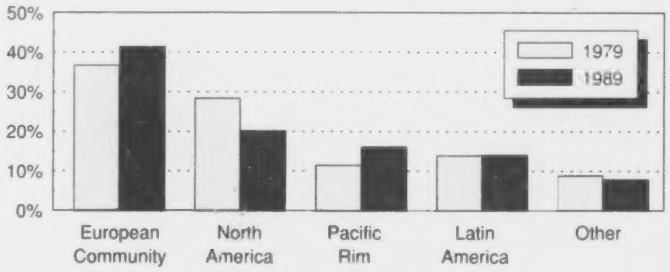
Indeed, U.S. firms appear to have shifted their geographic focus away from Europe, Latin America, Canada and Mexico in favor of the Pacific Rim and other developing countries. South Asia (which includes such countries as India, Pakistan, Burma and Bangladesh) and Africa are two regions which were never particularly important to the great majority of U.S. manufacturing firms. Yet, while both regions have lost share in worldwide sales to the Pacific Rim during the decade, the proportion of U.S. firms reporting activity in these regions has actually increased. Data taken directly from a sample of annual reports, however, suggest that the U.S. companies are more likely to have production plants than substantial direct sales within the developing world.

Chart 3: The Pattern of Company Activity

Percent of Firms Active in the Region



Percent of Worldwide Sales



Note: Based on The Conference Board universe of companies that report country activity

Chart 4: Industry Focus and Geographic Spread Increase

	1979	1989
Market Focus		
Number of Firms	1,924	1,490
Total Worldwide Sales ($ billion)	1,743	2,162
Average Sales per Firm ($ million)	906	1,451
Number of 3-digit SIC Industries per Firm	4.3	2.4
Average Sales per Firm per Industry ($ million)	211	605

Note: Based on The Conference Board universe of all companies that report sales data.

	1979	1989
Geographic Spread		
Number of Firms Reporting Country Activity	1,304	669
Average Number of Countries per Firm	4.05	4.73
Average Sales per Firm per Country ($ million)	300	593
Distribution of Companies Number of Countries:		
1-5	79.8%	74.7%
6-10	11.3%	12.6%
Over 10	8.9%	12.7%

Note: Based on The Conference Board universe of companies that report country activity.

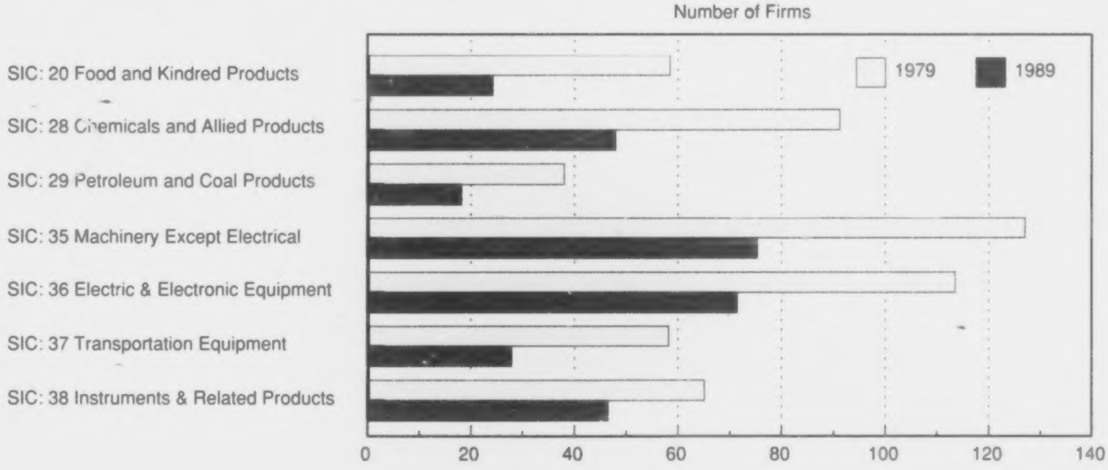
Reference: Appendix Tables 5 and 6

"Fewness"

If the first major trend of the 1980s among U.S. manufacturers was globalization, the second was **"fewness."** "Fewness" characterizes markets that have a limited number of producers. The concept is not new and it is advocated as a strategic quality firms should seek by segmenting existing markets or creating from scratch new product niches. The sharp decline in firms in every major industry group, however, reflects the very broad extent to which this trend toward "fewness" exists both at home, among domestic firms, and abroad. In 1979, U.S. manufacturers competed in an average of four 3-digit SIC industries compared with only two in 1989. Chart 4 shows that in 1989 average sales in each 3-digit industry by a typical firm also increased by threefold compared with the beginning of the decade—$211 million rose to $605 million.

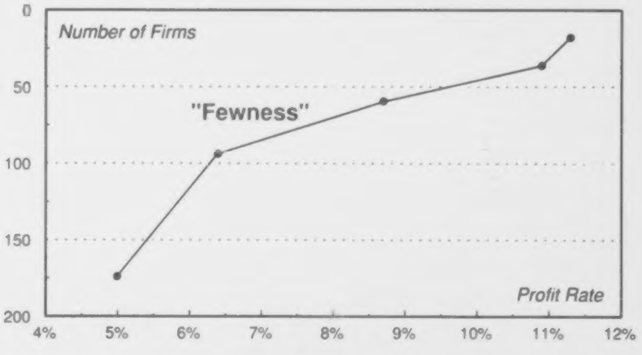
Moreover, the number of firms active in each 3-digit industry was cut almost in half—from 53 in 1979 to 28 in 1989. (See box, section VI, page 7, for discussion of how the number of competitors a firm faces with a given industry is calculated.) The decline in the number of competitors in each industry group was much greater than the 23 percent drop in the total number of firms in the universe. The consolidation occurred in all major industries, although to a lesser extent in machinery and electronics than in other industries (see Chart 5). Appendix Table 7 shows the extent to which the number of competitors declined in all 2-digit industry groups between 1979 and 1989.

Chart 5: The Emergence of "Fewness"



Note: Chart shows the average number of firms competing in each 3-digit SIC classification, within each 2-digit industry group. Data based on all companies in The Conference Board universe.

Chart 6: "Fewness" Fuels Profits



Note: Based on all firms in The Conference Board universe.

A typical U.S. manufacturer in The Conference Board universe also rapidly increased its presence in selected markets. Indeed, the threefold increase in average sales per industry implies that the average firm sustained sales growth of over 10 percent a year **in its chosen markets**—well above the annual growth in total worldwide sales for the universe as a whole.

Thus, the decline in the average number of competitors in a given industry segment and the remarkable sales growth in the remaining markets both illustrate the trend toward "fewness" among U.S. manufacturers. Moreover, although 3-digit SIC definitions are narrow compared with their 2-digit counterparts, they are still exceptionally broad compared with the definitions with which most company marketing departments would be concerned. There are between three and four 4-digit industries in a typical 3-digit SIC category. Therefore, a typical U.S. manufacturer in The Conference Board universe, which has 28 domestic competitors at the 3-digit SIC level, will average seven to ten U.S. competitors at the 4-digit level. Of course, there are many markets in which U.S. firms do not compete. But, product markets are typically defined at the 6- or 7-digit SIC level, which would further reduce the number of competitors considerably. Of course, in those product groups where U.S. firms are present, foreign firms would add to the total number of competitors a firm faces worldwide.

Among superior performers—who prefer proprietary products that are well differentiated, command a quality premium, and/or can be produced by a proprietary manufacturing process that confers significant cost advantages—"fewness" is linked to profits (see Chart 6). As the number of U.S. firms competing in a given market declines—and the characteristic of "fewness" increases—profitability rises.

The actual numbers in Chart 6 are less important than the concept. As mentioned earlier, the 3-digit SIC level is a relatively high level of aggregation for most product lines. If it were possible to disaggregate to more refined industry classes, the relationship between "fewness" and profitability would undoubtedly be even stronger.

"Fewness" is the result, in part, of diversity among products and uniformity across national markets. Diversity has increased as products have grown more complex and differentiated and as product life cycles have shortened. At the same time, national markets have become increasingly similar, especially in the industrial countries, and particularly for intermediate goods. Companies have been able to expand their global presence and realize economies of scale as a result of more flexible manufacturing and distribution methods and better communications and transportation technologies.

The Global Challenge

The history of U.S. manufacturing during the 1980s shows that it pays to be global in terms of both superior profitability and growth. When firms fully accept the challenge abroad and search out suppliers and customers without regard to national boundaries, they benefit from being more alert to competitive threats wherever they might originate.

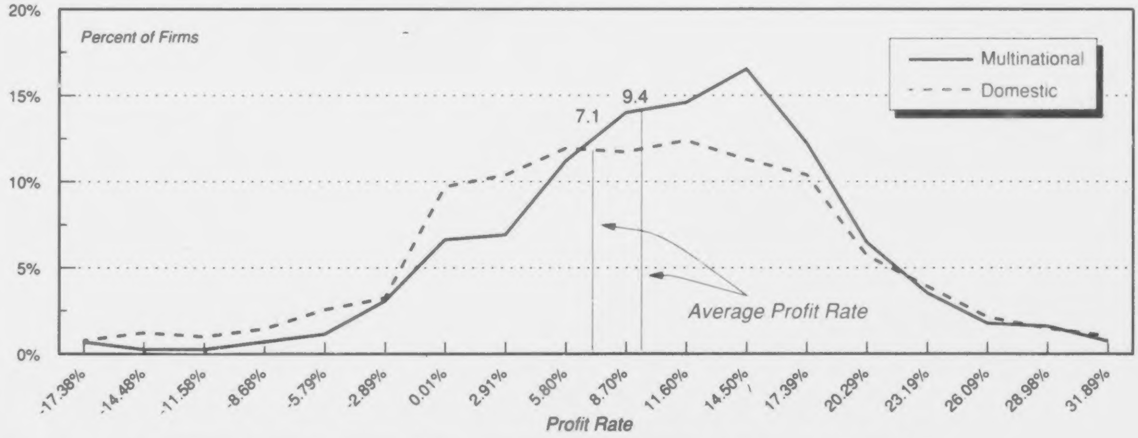
Charts 7 and 8 compare the profitability for multinational versus domestic firms in the aggregate and for key industries. Not only are multinational firms more profitable than domestic firms on average, but they also out-perform domestics in 17 of the 20 major industry groups. Chart 8 further illustrates the impressive performance of multinational companies in important, often high-technology industries, which account for virtually all of the net growth in U.S. manufacturing sales worldwide.

Charts 9 and 10 are counterparts to Charts 7 and 8, but compare growth in sales rather than profitability. They show an even clearer tendency toward the superior performance for multinational companies relative to domestics. They grew faster in 19 out of 20 of the 2-digit SIC industries. Appendix Tables 8 and 9 compare the growth and profitability for multinational versus domestic firms in all 2-digit SIC industry groups.

Of course, it is possible to remain domestic and be successful. In printing and publishing, for example, domestic firms have generally out-performed multinational companies. Moreover, the distributions shown in Charts 7 and 9 make it clear that many domestic firms grew faster and are more profitable than their multinational counterparts. Still, there is a strong tendency toward better performance among multinational companies.

Chart 7: Being Multinational Pays...

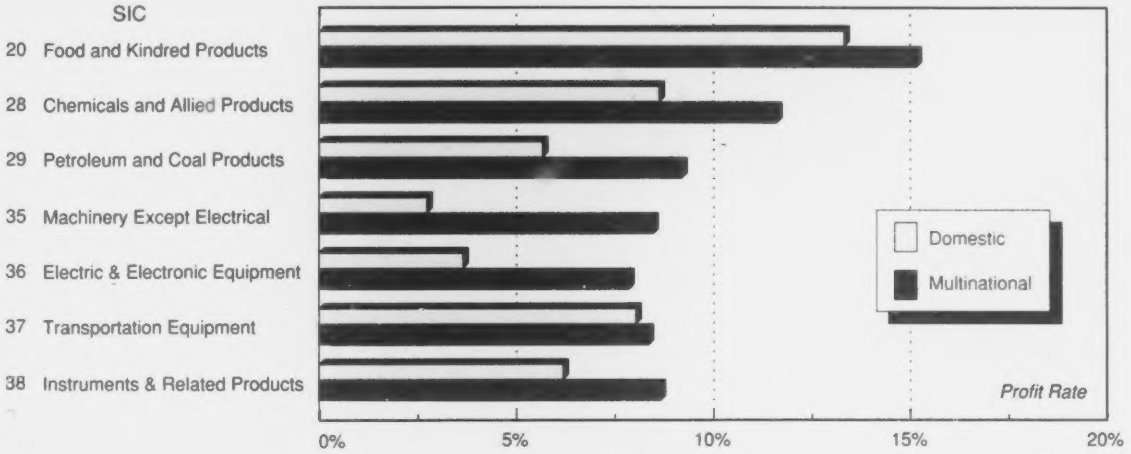
Frequency Distribution



Note: Based on all companies in The Conference Board universe in 1989. Average return on assets 1986 to 1990.

Reference: Appendix Table 8

Chart 8: ...In All Major Industries

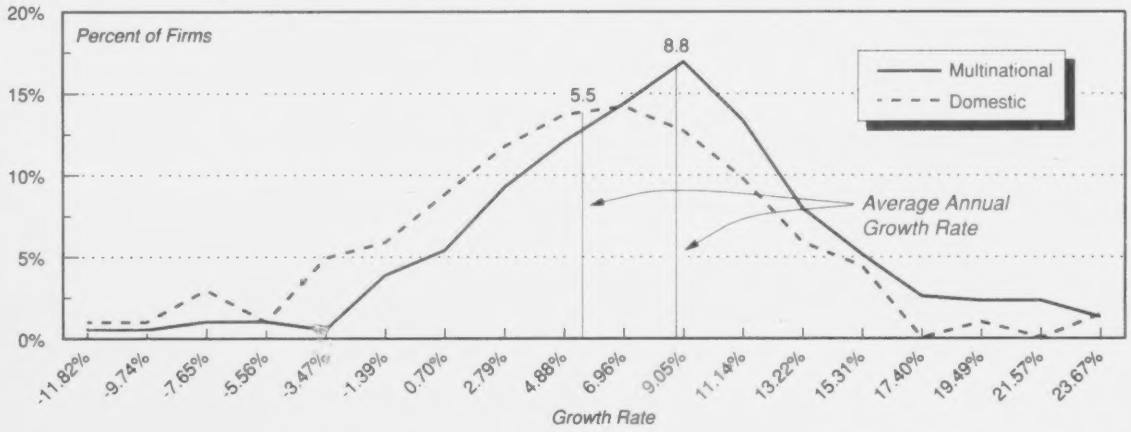


Note: Based on all companies in The Conference Board universe in 1989. Average return on assets 1986 to 1990.

Reference: Appendix Table 8

Chart 9: And Spurs Growth...

Frequency Distribution



Note: Based on all companies in The Conference Board universe in 1989.

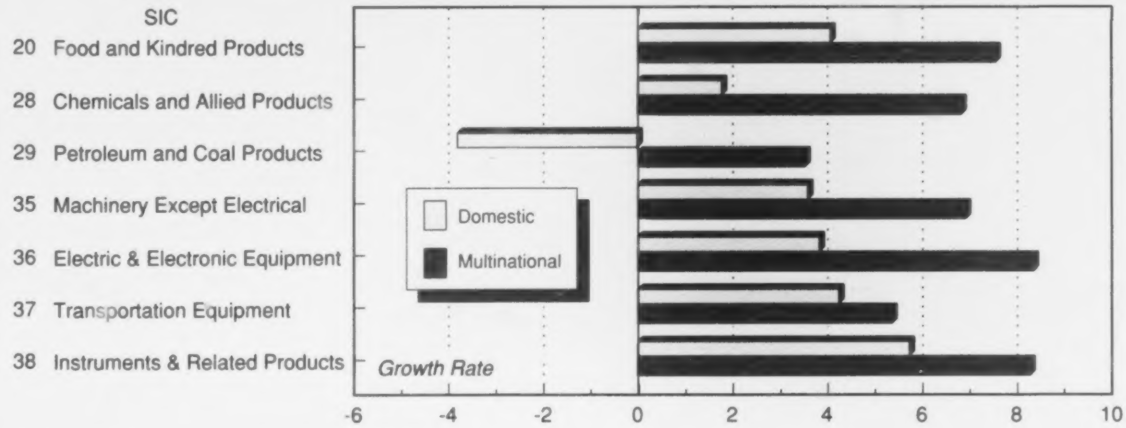
Reference: Appendix Table 9

In part, the success of multinational firms is due to the changing geography of markets. With the exception of differences in industrial standards and tastes, national boundaries matter less and less. Transportation technology has opened up more population and wealth concentrations, creating more market opportunities. Marketing regions are now as likely to spill over from one country to another as they are to divide up neatly according to national boundaries.

Chart 11 shows that average company profits and growth vary depending on the regions in which they are active. The Pacific Rim stands out as the region where activity is important for growth of U.S. companies. According to the chart, U.S. companies not only have extended their operations into the Pacific Rim, but they also have been rewarded in terms of superior sales growth for doing so. The sales growth in South Asia is probably more of an artifact of the allocation method

Chart 10: ...Across All Major Industries

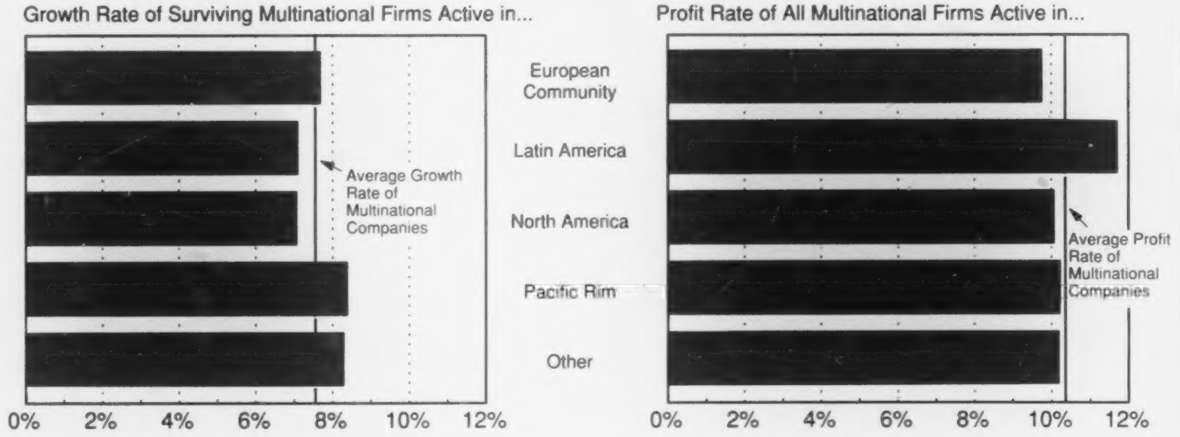
Average Annual Percent Change, 1979 to 1989



Note: Based on all companies in The Conference Board universe in 1989.

Reference: Appendix Table 9

Chart 11: Winners and Losers Among Regions, 1989


Growth Rate of Surviving Multinational Firms Active in...

Profit Rate of All Multinational Firms Active in...

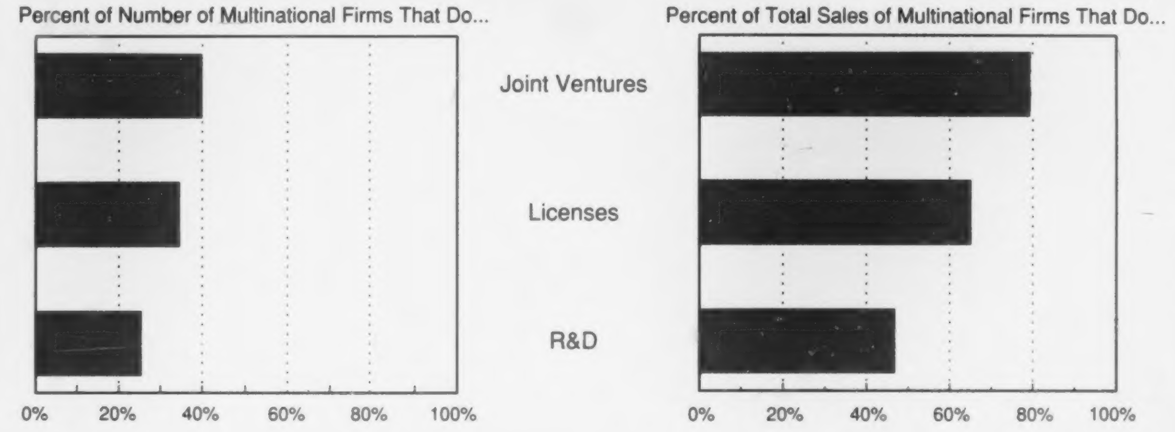
Note: The above chart is based on The Conference Board universe of surviving multinational firms in 1989.

Note: The above chart is based on all multinational firms reporting activity by country in 1989. Average return on assets from 1986 to 1990.

for distributing sales. A sample of the annual reports of companies in the universe suggests that most companies only have production plants and do very little selling in the region. Since so many companies are active in Europe, it is not surprising that a presence there is associated with only average growth for multinational companies.

What is surprising is the relationship between regional presence and profitability. It seems that Latin America stands out as the single region in which multinational firms enjoy above average profitability. This may be due to the fact that U.S. firms benefit—in terms of both margin and profitability—from local trade restrictions that are intended to protect domestic industries. Although the result is not so dramatic, Latin America is a region associated with above average profits even when industry effects are taken out (i.e., when an allowance is made for the difference in profits of industries and the distribution of industries across regions). If many Latin American countries follow

Chart 12: Multinational Firms With Global Strategies



Note: Based on all multinational firms in 1989. Shares do not add to 100 percent because a single firm can engage in more than one strategy.

Mexico's lead in reducing trade barriers either by joining, in some way, the forthcoming North American Free Trade Agreement (NAFTA) or by unilateral action, this profit advantage is likely to diminish.

Strategies and Alliances

Chart 12 shows the proportions of multinational manufacturers that have joint ventures, licensing agreements and R&D operations abroad. Joint ventures are the most common global strategy employed by multinationals and they are used by 40 percent of all firms. These firms account for 80 percent of total worldwide sales for multinational companies. About 35 percent of all firms engage in licensing arrangements, while 25 percent have R&D activities abroad.

Chart 13 illustrates the trade-off between growth and profitability in using joint ventures versus licenses. Multinational firms that use both approaches are more profitable than those that do not. Joint ventures appear to provide a modest edge, in terms of shareholder return, relative to licensing. Yet, by their nature, joint ventures limit growth potential, while licenses, although somewhat less profitable, are strongly tied to faster worldwide sales growth. Some firms, especially those which depend heavily on advantages from proprietary technology, shy away from both strategies. However, the most dramatic and clear link between superior performance and strategy is the incidence of R&D activity abroad. Growth rates and profit rates for multinational firms with overseas R&D are strikingly higher than for those without. Appendix Tables 10, 11 and 12 show the increase in both joint ventures, licensing arrangements, and foreign R&D activities for all 20 of the 2-digit SIC classes over the decade.

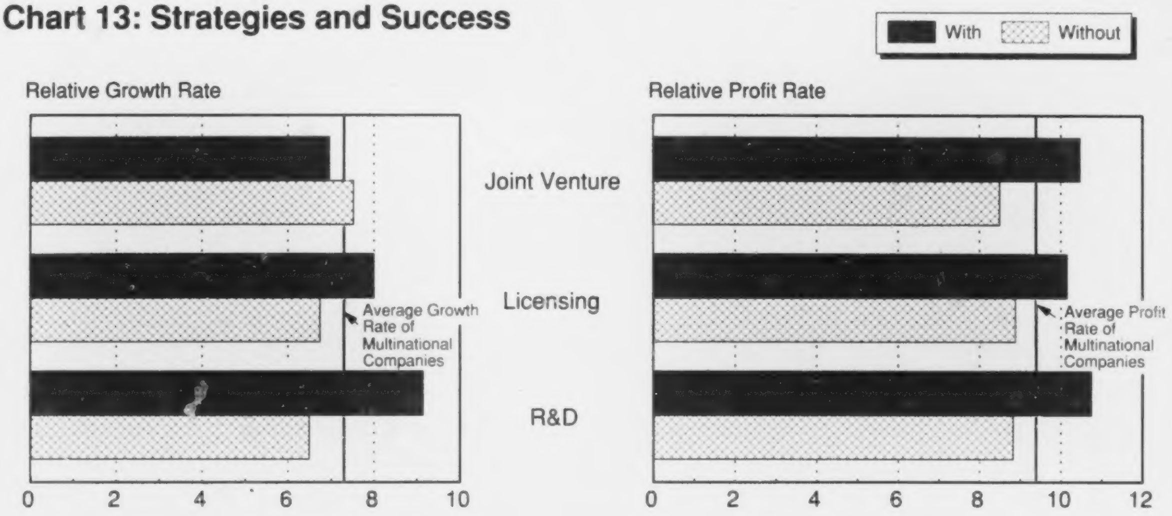
To realize high value means, in one sense, being a market leader. For most companies, it was sufficient to be in the top "one-third" of a market—defined by geography, product or client type. One of the ways that firms distinguish themselves to their clients is by providing quality products and services. The hallmark of successful manufacturers is that they define quality the way their customers do, rather than according to some internally generated standard.

What Do Outstanding Firms Do?

Much of the preceding analysis has focused on the differences in performance between multinational and domestic firms and among multinational firms alone. A different way of asking these strategic questions is to ask how outstanding firms differ from other firms.

"Outstanding firms" are defined here as firms that are in the top 20 percent in terms of both sustained profitability and growth over the decade. There are not many of them—only 37 in The Conference Board universe of companies. Although they are found in every 2-digit industry except textiles and apparel, almost one-half of these companies are in the machinery or electronics industry. Thirty out of the 37 companies—or about 80 percent—are multinational compared with 53 percent in the total Conference Board universe. In other words, the bias toward "global," or international operations, is overwhelming among outstanding firms.

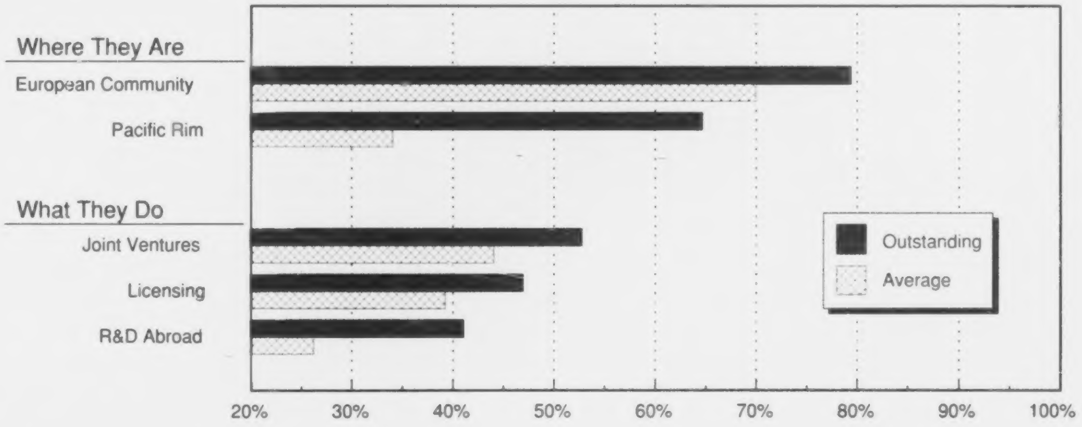
Chart 13: Strategies and Success



Note: The above chart is based on The Conference Board universe of all surviving companies in 1989.

Note: The above chart is based on all multinational firms.

Chart 14: What Outstanding Firms Do Differently



Note: Based on all firms in the top quintile of performance, both in terms of growth and profitability.

Outstanding firms typically have more product lines in more industries. They operate in three 3-digit SIC industries, compared with two for the average firm. This may be a function of size: worldwide sales for outstanding firms averaged $2.5 billion compared with an average of $1.4 billion for the universe as a whole.

Moreover, their market share is typically twice as large as the average firm. Ironically, they face more competitors than the average firm in the universe—an average of 47 at the 3-digit industry level in 1989, compared with 28 for The Conference Board population. Thus, while the average number of competitors has been cut in half for most firms since 1979, these companies do not appear to enjoy the same advantages of "fewness" as do other firms.

This apparent lack of "fewness" may occur for several reasons. First, these companies are in dynamic industries where profits and growth are high; therefore, they attract more competitors. Second, many of the firms are new industries with new technologies and are less mature. It may, therefore, also be more difficult to isolate or segment a particular market. Moreover, SIC definitions may be particularly ill-suited for defining market segments given the changing nature of the technology. Third, it may be that the 3-digit SIC industry level is simply too high a level of aggregation to capture *even the inference* of "fewness." There are, for example, 51 product classifications at the 4-digit level alone in the machinery industry and 37 in the electronics industry. Perhaps, at this level with still more refined SIC codes, truer measures of product markets ("fewness") would appear.

Chart 14 shows the regional and strategic characteristics for these firms. Particularly striking is the fact that these superior firms are twice as active in the Pacific Rim and are more active in Europe than the average multinational firm. An equally striking characteristic is that these firms are twice as likely to engage in R&D outside of the United States.

Looking Ahead

What are the implications for business? The experiences of U.S. manufacturing firms in The Conference Board universe show:

- **Survival is not assured.** Firms are likely to appear and disappear at a high rate as industries and markets evolve in the 1990s, as they have in the 1980s.
- **Technology is key to growth**. The industry groups where high technology is concentrated either in the production process or in the product itself have grown rapidly and are highly profitable relative to other firms.
- **Globalization pays.** Multinational firms are overwhelmingly the superior performers in terms of both growth and profitability; as a consequence, global presence is also important for long-term survival.
- **"Fewness" pays.** Profits rise as the number of competitors declines. This is due both to the natural evolution of markets and to the active strategies of corporations as they subdivide existing business segments and develop new ones. Some markets, such as electronics and communications, may offer commanding opportunities for growth and profitability, making it possible to succeed even with a relatively large number of competitors. However, closer examination of product markets would probably show that "fewness" pays here as well.
- **Engaging in R&D abroad pays.** Successful firms are more active than others in seeking out strategic alliances of all sorts; licenses, joint ventures or R&D. Yet, engaging in R&D abroad appears to have a particularly important payoff.
- **Dynamic regions lead to dynamic performance.** While trade barriers in some countries may protect margins in the near term, the preferred markets should be those that are growing the fastest, improving quality and technological standards rapidly, and/or are suitable to a particular marketing or product strategy. Successful multinational companies do not go everywhere at once. Developing a global presence is a gradual process, not a one-time event.

Implications for Government Policy

The superior performance and survival rate among multinational companies suggest that free trade across national borders is important to U.S. companies. Conversely, U.S. protectionism against foreign imports or investment would invite retaliation that would almost certainly endanger the better-performing U.S. manufacturers.

This study also strongly suggests that as the number of competitors in a given industry segment declines, the competitive environment becomes increasingly determined by the strategic decisions of other firms rather than the usual market forces of demand and price. If this is the case, any sort of intervention such as foreign government support, especially with new technology development, can create competitive advantages for foreign firms that make it very difficult for U.S. companies, acting individually, to respond effectively.

The corresponding policy prescription is far from clear. Domestic markets are highly dynamic as are global markets—as reflected in the substantial change in the composition of The Conference Board universe over the decade. Moreover, there are literally hundreds of thousands of small companies that lie outside this universe; they may someday become large companies. Therefore, policy should not be targeted in a way that might impair the process of growth and innovation or the process of structural change.

The 1990s

The analysis in this report is about what firms have done in the past. In the 1990s, the number of competitors in foreign markets will surely be even greater than in the 1980s, and international conditions may not favor globalization. Moreover, political stability—one impetus for globalization—may well diminish as old world order fragments. The future of GATT is also in question. The current round of negotiations is struggling to find consensus, and regionalism in North America, Europe and, arguably, the Pacific Rim is an increasingly attractive alternative to multilateralism.

To the extent that "going global" is more difficult in the future, issues of global access and technological advantage are a high priority. U.S. manufacturers, like their foreign competitors, must continue to specialize their products and to expand internationally in the face of uncertain barriers to trade and investment and stiffer international competition. There is every reason to believe that a global reach and focus in specific industries will remain key to superior performance in the future.

Statistical Appendix

Table 1. The Definition of 2-Digit Standard Industrial Classifications (SICs)

SIC #	Industry	SIC#	Industry
20	Food and kindred products	32	Stone, clay, glass and concrete products
21	Tobacco products	33	Primary metal industries
22	Textile mill products	34	Fabricated metal products, except machinery and transportation equipment
23	Apparel and other textile products	35	Industrial and commercial machinery and computer equipment
24	Lumber and wood products, except furniture	36	Electronic and other electrical equipment and components, except computer equipment
25	Furniture and fixtures	37	Transportation equipment
26	Paper and allied products	38	Measuring, analyzing, and controlling instruments; photographic, medical and optical goods; watches and clocks
27	Printing, publishing, and allied industries	39	Miscellaneous manufacturing industries
28	Chemicals and allied products		
29	Petroleum refining and related industries		
30	Rubber and miscellaneous plastics products		
31	Leather and leather products		

Table 2. The Definition of 3-Digit SICs

SIC#	*Industry*
201	Meat products
202	Dairy products
203	Canned, frozen and preserved fruits, vegetables and food specialties
204	Grain mill products
205	Bakery products
206	Sugar and confectionery products
207	Fats and oils
208	Beverages
209	Miscellaneous food preparations and kindred products
211	Cigarettes
212	Cigars
213	Chewing and smoking tobacco and snuff
214	Tobacco stemming and redrying
221	Broadwoven fabric mills, cotton
222	Broadwoven fabric mills, manmade fiber and silk
223	Broadwoven fabric mills, wool (including dyeing and finishing)
224	Narrow fabric and other smallwares mills: cotton, wool, silk, and manmade fiber
225	Knitting mills
226	Dyeing and finishing textiles, except wool fabrics and knit goods
227	Carpets and rugs
228	Yarn and thread mills
229	Miscellaneous textile goods
231	Men's and boys' suits, coats, and overcoats
232	Men's and boys' furnishings, work clothing and allied garments
233	Women's, misses' and juniors' outerwear
234	Women's, misses', children's, and infants' undergarments
235	Hats, caps, and millinery
236	Girls', children's, and infants' outerwear
237	Fur goods
238	Miscellaneous apparel and accessories
239	Miscellaneous fabricated textile products
241	Logging
242	Sawmills and planing mills
243	Millwork, veneer, plywood, and structural wood members
244	Wood containers
245	Wood buildings and mobile homes
249	Miscellaneous wood products
251	Household furniture
252	Office furniture
253	Public building and related furniture
254	Partitions, shelving, lockers, office and store fixtures
259	Miscellaneous furniture and fixtures
261	Pulp mills
262	Paper mills
263	Paperboard mills
265	Paperboard containers and boxes
267	Converted paper and paperboard products, except containers and boxes
271	Newspapers: publishing, or publishing and printing
272	Periodicals: publishing, or publishing and printing
273	Books
274	Miscellaneous publishing
275	Commercial printing
276	Manifold business forms
277	Greeting cards
278	Blankbooks, looseleaf binders, bookbinding, related work
279	Service industries for the printing trade
281	Industrial inorganic chemicals
282	Plastic materials and synthetic resins, synthetic rubber, cellulosic and other manmade fibers, except glass
283	Drugs
284	Soap, detergents, and cleaning preparations, perfumes, cosmetics, and other toilet preparations
285	Paints, varnishes, lacquers, enamels, and allied products
286	Industrial organic chemicals
287	Agricultural chemicals
289	Miscellaneous chemical products
291	Petroleum refining
295	Asphalt paving and roofing materials
299	Miscellaneous products of petroleum and coal
301	Tires and inner tubes
302	Rubber and plastics footwear
305	Gaskets, packing, and sealing devices, rubber and plastics hose and belting
306	Fabricated rubber products, not elsewhere classified
308	Miscellaneous plastics products
311	Leather tanning and finishing

SIC #	Industry
313	Boot and shoe cut stock and findings
314	Footwear, except rubber
315	Leather gloves and mittens
316	Luggage
317	Handbags and other personal leather goods
319	Leather goods, not elsewhere classified
321	Flat glass
322	Glass and glassware, pressed or blown
323	Glass products, made of purchased glass
324	Cement, hydraulic
325	Structural clay products
326	Pottery and related products
327	Concrete, gypsum, and plaster products
328	Cut stone and stone products
329	Abrasive, asbestos, and miscellaneous nonmetallic mineral products
331	Steel works, blast furnaces, and rolling and finishing mills
332	Iron and steel foundries
333	Primary smelting and refining of nonferrous metals
334	Secondary smelting, refining of nonferrous metals
335	Rolling, drawing, and extruding of nonferrous metals
336	Nonferrous foundries (castings)
339	Miscellaneous primary metal products
341	Metal cans and shipping containers
342	Cutlery, handtools, and general hardware
343	Heating equipment, except electric and warm air; and plumbing fixtures
344	Fabricated structural metal products
345	Screw machine products, and bolts, nuts, screws, rivets, and washers
346	Metal forgings and stampings
347	Coating, engraving, and allied services
348	Ordinance and accessories, except vehicles and guided missiles
349	Miscellaneous fabricated metal products
351	Engines and turbines
352	Farm and garden machinery and equipment
353	Construction, mining, and materials handling machinery and equipment
354	Metalworking machinery and equipment

SIC #	Industry
355	Special industry machinery, except metalworking machinery
356	General industrial machinery and equipment
357	Computer and office equipment
358	Refrigeration and service industry machinery
359	Miscellaneous industrial and commercial machinery and equipment
361	Electric transmission and distribution equipment
362	Electrical industrial apparatus
363	Household appliances
364	Electric lighting and wiring equipment
365	Household audio and video equipment, and audio recordings
366	Communications equipment
367	Electronic components and accessories
369	Miscellaneous electrical machinery, equipment, and supplies
371	Motor vehicles and motor vehicle equipment
372	Aircraft and parts
373	Ship and boat building and repairing
374	Railroad equipment
375	Motorcycles, bicycles, and parts
376	Guided missiles and space vehicles and parts
379	Miscellaneous transportation equipment
381	Search, detection, navigation, guidance, aeronautical, and nautical systems, instruments and equipment
382	Laboratory apparatus and analytical, optical, measuring, and controlling instruments
384	Surgical, medical, and dental instruments and supplies
385	Ophthalmic goods
386	Photographic equipment and supplies
387	Watches, clocks, clockwork operated devices, and parts
391	Jewelry, silverware, and plated ware
393	Musical instruments
394	Dolls, toys, games and sporting and athletic goods
395	Pens, pencils, and other artists' materials
396	Costume jewelry, costume novelties, buttons, and miscellaneous notions, except precious metal
399	Miscellaneous manufacturing industries

Table 3: The Definition of Regions

Africa

- Algeria
- Andorra
- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Cape Verde
- Chad
- Comoros Islands
- Congo
- Guinea
- Ethiopa
- Gabon
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Ivory Coast
- Kenya
- Lesotho
- Liberia
- Libya
- Malagasy Republic
- Malawi
- Mali
- Mauritania
- Mauritius
- Morocco
- Mozambique
- Niger
- Nigeria
- Rwanda
- San Marino
- Sao Tome/ Principe
- Senegal
- Seychelles
- Sierra Leone
- Somalia
- South Africa
- Sudan
- Swaziland
- Tanzania
- Togo
- Tunisia
- Uganda
- Zaire
- Zambia
- Zimbabwe
- Central African Republic

COMECON*

- Albania
- Bulgaria
- Czechoslovakia
- East Germany
- Hungary
- Poland
- Romania
- USSR
- Yugoslavia

Pacific Rim

- Australia
- Indonesia
- Japan
- Malaysia
- New Zealand
- Philippines
- Thailand
- China (Taiwan)
- Hong Kong
- Singapore
- South Korea

EFTA**

- Finland
- Iceland
- Norway
- Sweden
- Switzerland

North America

- Canada
- Mexico

Latin America

- Argentina
- Bahamas
- Barbados
- Bolivia
- Brazil
- Chile
- Colombia
- Costa Rica
- Cuba
- Dominican Republic
- El Salvador
- Ecuador
- French Guiana
- Grenada
- Guadaloupe
- Guatemala
- Guyana
- Haiti
- Honduras
- Jamaica
- Martinique
- Netherlands Antilles
- Nicaragua
- Panama
- Paraguay
- Peru
- Surinam
- Trinidad/Tobago
- Uruguay
- Venezuela
- West Indies

European Community**

- Austria
- Belgium
- Denmark
- France
- Greece
- Ireland
- Italy
- Liechtenstein
- Luxembourg
- Monaco
- Netherlands
- Portugal
- Spain
- United Kingdom
- West Germany

South Asia

- Afghanistan
- Bangladesh
- Bhutan
- India
- Kampuchea
- Laos
- Maldives
- Myanmar (formerly Burma)
- Nepal
- Pakistan
- Sri Lanka
- Vietnam

Other

- Borneo
- Fiji
- Guam
- Nauru
- New Caledonia
- New Guinea
- Papua New Guinea
- China (PRC)
- Tahiti
- Tongo
- Western Samoa
- Cyprus
- Malta
- Mongolia
- North Korea

Middle East

- Yemen
- Bahrain
- Egypt
- Iran
- Iraq
- Israel
- Jordan
- Kuwait
- Lebanon
- Oman
- Yemen (PDR)
- Qatar
- Saudi Arabia
- Syria
- Turkey
- United Arab Emirates

* COMECON is the Council for Mutual Economic Assistance, a trade and economic organization formed by the Soviet Union and Eastern Bloc countries in 1949, that was dissolved in 1990.

** Monaco, Liechtenstein and Austria have been included in their European Community (EC) region and Switzerland in the European Free Trade Area (EFTA) region for the sake of completeness in the coverage.

Table 4. Home and Abroad: Distribution of Multinational and Domestic Firms by Industry

			Domestic		*Multinational*	
SIC #	*Industry*	*Total*	*Number of Companies*	*As Percent of Total*	*Number of Companies*	*As Percent of Total*
20	Food and kindred products	88	39	44.3	49	55.7
21	Tobacco products	6	2	33.3	4	66.7
22	Textile mill products	62	34	54.8	28	45.2
23	Apparel and other textile products	51	29	56.9	22	43.1
24	Lumber and wood products	64	28	43.8	36	56.3
25	Furniture and fixtures	57	27	47.4	30	52.6
26	Paper and allied products	56	22	39.3	34	60.7
27	Printing and publishing	63	37	58.7	26	41.3
28	Chemicals and allied products	199	49	24.6	150	75.4
29	Petroleum refining and coal products	43	18	41.9	25	58.1
30	Rubber and misc. plastics products	116	47	40.5	69	59.5
31	Leather and leather products	34	19	55.9	15	44.1
32	Stone, clay and glass products	86	38	44.2	48	55.8
33	Primary metal industries	111	46	41.4	65	58.6
34	Fabricated metal products	233	88	37.8	145	62.2
35	Machinery, except electrical	447	152	34.0	295	66.0
36	Electric and electronic equipment	359	142	39.6	217	60.4
37	Transportation equipment	147	51	34.7	96	65.3
38	Instruments and related products	241	92	38.2	149	61.8
39	Misc. manufacturing industries	87	31	35.6	56	64.4
Total firms in Conference Board universe		1,490	704		786	

Note: Number of companies shown in Columns 1, 2 and 4 do not add to grand totals shown above because firms are listed within several different industrial classifications and therefore appear more than once.

Table 5. The Shifting Composition of American Industry: Distribution of Worldwide Sales and Number of Companies, 1979 and 1989

		Companies				Worldwide Sales			
		1979		1989		1979		1989	
SIC #	*Industry*	*Number*	*Share of Total**	*Number*	*Share of Total**	*($000)*	*Share of Total*	*($000)*	*Share of Total*
20	Food and kindred products	323	16.8	88	5.9	167,800	9.6	172,959	8.0
21	Tobacco products	26	1.4	6	0.4	9,361	0.5	31,624	1.5
22	Textile mill products	220	11.4	62	4.2	26,736	1.5	30,347	1.4
23	Apparel and other textile products	198	10.3	51	3.4	28,871	1.7	14,417	0.7
24	Lumber and wood products	163	8.5	64	4.3	30,224	1.7	52,992	2.5
25	Furniture and fixtures	169	8.8	57	3.8	16,003	0.9	10,377	0.5
26	Paper and allied products	191	9.9	56	3.8	54,614	3.1	64,831	3.0
27	Printing and publishing	200	10.4	63	4.2	41,148	2.4	42,526	2.0
28	Chemicals and allied products	423	22.0	199	13.4	201,653	11.6	340,225	15.7
29	Petroleum refining and coal products	99	5.1	43	2.9	272,349	15.6	205,363	9.5
30	Rubber and misc. plastics products	314	16.3	116	7.8	78,874	4.5	74,708	3.5
31	Leather and leather products	68	3.5	34	2.3	10,279	0.6	10,299	0.5
32	Stone, clay and glass products	210	10.9	86	5.8	38,269	2.2	37,773	1.7
33	Primary metal industries	299	15.5	111	7.4	86,004	4.9	46,916	2.2
34	Fabricated metal products	557	29.0	233	15.6	97,185	5.6	89,945	4.2
35	Machinery, except electrical	740	38.5	447	30.0	169,473	9.7	308,872	14.3
36	Electric and electronic equipment	572	29.7	359	24.1	136,949	7.9	270,775	12.5
37	Transportation equipment	315	16.4	147	9.9	174,378	10.0	198,912	9.2
38	Instruments and related products	351	18.2	241	16.2	66,682	3.8	105,655	4.9
39	Misc. manufacturing industries	233	12.1	87	5.8	35,692	2.0	52,397	2.4
Total reporting industry activity		*1,924*	*n.a.*	*1,490*	*n.a.*	*1,742,546*	*100.0*	*2,161,911*	*100.0*

Note: Columns do not add to grand totals shown above because firms are listed within several different industrial classifications and therefore appear more than once.

* Share represents the percent of companies active in the industry.

n.a. Not applicable.

Table 6. Where Companies Were and Are: Distribution of the Number of Companies and Sales by Region, 1979 and 1989

	Companies Reporting Country Activity				Worldwide Sales			
	1979		1989		1979		1989	
Region	Number	Share of Firms Active in Region	Number	Share of Firms Active in Region	($000)	Share	($000)	Share
European Community	856	65.6	479	71.6	584,092	36.9	778,335	41.5
Latin America	386	29.6	184	27.5	221,822	14.0	265,269	14.1
North America	928	71.2	414	61.9	451,405	28.5	380,415	20.3
Pacific Rim	410	31.4	273	40.8	183,993	11.6	304,140	16.2
Other	248	19.0	155	23.2	140,959	8.9	148,956	7.9
Total reporting country activity	*1,304*	*n.a.*	*669*	*n.a.*	*1,582,271*		*1,877,114*	

Note: United States is not included in North America. Here, "other" includes COMECON, EFTA, the Middle East and South Asia (see Table 3). The share of firms active in each region is defined as the number of firms that report activity in one or more countries in that region, expressed as a percent of the total number of firms that report their activity by country. Companies include those that have exports, joint ventures or other foreign alliances as well as multinational firms that have foreign sales and plants. Numbers in columns do not add to grand totals shown above because firms are listed in several different countries and may therefore appear more than once.

n.a. Not applicable.

Table 7. "Fewness": Change in the Average Number of Firms Active in Each Industry

SIC #	Industry	Total	
		1979	*1989*
20	Food and kindred products	58.0	24.0
21	Tobacco products	8.8	3.0
22	Textile mill products	38.4	10.7
23	Apparel and other textile products	31.1	14.4
24	Lumber and wood products	36.3	17.8
25	Furniture and fixtures	41.6	16.0
26	Paper and allied products	49.2	17.7
27	Printing and publishing	31.7	13.0
28	Chemicals and allied products	91.5	47.9
29	Petroleum refining and coal products	37.7	17.7
30	Rubber and misc. plastics products	62.8	34.8
31	Leather and leather products	10.9	6.1
32	Stone, clay and glass products	30.0	13.6
33	Primary metal industries	55.7	23.3
34	Fabricated metal products	87.1	38.9
35	Machinery, except electrical	126.6	75.1
36	Electric and electronic equipment	113.5	71.3
37	Transportation equipment	58.9	27.3
38	Instruments and related products	65.1	46.6
39	Misc. manufacturing industries	43.7	17.2
	Weighted average	*52.8*	*28.2*

Note: This table shows the average number of U.S. competitors in each three-digit SIC classification aggregated to the two-digit level. Data shown for all companies in The Conference Board universe.

Table 8. Average Profit Rates for Domestic and Multinational Firms by Industry

SIC #	Industry	All	Domestic	Multinational
20	Food and kindred products	14.6%	13.3%	15.2%
21	Tobacco products	9.0	5.9	10.6
22	Textile mill products	10.0	8.9	10.9
23	Apparel and other textile products	10.9	8.5	13.3
24	Lumber and wood products	9.5	6.5	11.3
25	Furniture and fixtures	11.4	8.6	13.6
26	Paper and allied products	12.5	13.1	12.2
27	Printing and publishing	15.0	16.6	12.9
28	Chemicals and allied products	11.0	8.6	11.6
29	Petroleum refining and coal products	8.2	5.7	9.2
30	Rubber and misc. plastics products	9.9	8.0	10.7
31	Leather and leather products	12.8	11.6	13.7
32	Stone, clay and glass products	9.1	10.1	8.5
33	Primary metal industries	7.6	8.0	7.3
34	Fabricated metal products	7.4	5.7	8.2
35	Machinery, except electrical	6.8	2.7	8.5
36	Electric and electronic equipment	6.4	3.7	7.9
37	Transportation equipment	8.3	8.0	8.4
38	Instruments and related products	7.8	6.2	8.7
39	Misc. manufacturing industries	10.0	6.2	11.7
	Weighted average	*8.5*	*7.1*	*9.4*

Note: Profit is defined as the return on total assets averaged for the 1986 to 1990 period.

Table 9. Average Annual Growth in Worldwide Sales for Domestic and Multinational Firms by Industry, 1979 to 1989

SIC #	Industry	All	Domestic	Multinational
20	Food and kindred products	6.4%	4.1%	7.6%
21	Tobacco products	10.5	6.7	13.0
22	Textile mill products	5.0	1.2	8.7
23	Apparel and other textile products	6.3	5.1	7.3
24	Lumber and wood products	8.0	7.2	8.5
25	Furniture and fixtures	8.4	5.6	10.4
26	Paper and allied products	8.9	7.8	9.6
27	Printing and publishing	8.4	8.3	8.5
28	Chemicals and allied products	6.1	1.8	6.8
29	Petroleum refining and coal products	0.9	-3.8	3.5
30	Rubber and misc. plastics products	6.4	3.4	8.0
31	Leather and leather products	4.7	2.8	5.7
32	Stone, clay and glass products	4.3	5.4	3.7
33	Primary metal industries	4.4	2.3	5.3
34	Fabricated metal products	5.0	3.3	5.8
35	Machinery, except electrical	6.2	3.6	6.9
36	Electric and electronic equipment	7.2	3.8	8.4
37	Transportation equipment	5.1	4.2	5.4
38	Instruments and related products	7.9	5.7	8.3
39	Misc. manufacturing industries	7.3	4.8	8.0
Weighted average		*8.4*	*5.5*	*8.8*

Note: Data are based on firms in 1979 that survived under same corporate identity in 1989.

Table 10. Proportion of Multinational Firms Using Joint Ventures by Industry, 1979 and 1989

		1979			*1989*		
SIC #	*Industry*	*No. of Companies*	*No. with Joint Ventures*	*As % of Total*	*No. of Companies*	*No. with Joint Ventures*	*As % of Total*
20	Food and kindred products	131	45	34.4	49	30	61.2
21	Tobacco products	14	4	28.6	4	4	100.0
22	Textile mill products	96	29	30.2	28	13	46.4
23	Apparel and other textile products	89	23	25.8	22	5	22.7
24	Lumber and wood products	65	16	24.6	36	19	52.8
25	Furniture and fixtures	75	24	32.0	30	10	33.3
26	Paper and allied products	98	38	38.8	34	18	52.9
27	Printing and publishing	92	23	25.0	26	8	30.8
28	Chemicals and allied products	254	103	40.6	150	86	57.3
29	Petroleum refining and coal products	54	24	44.4	25	18	72.0
30	Rubber and misc. plastics products	170	66	38.8	69	32	46.4
31	Leather and leather products	30	7	23.3	15	5	33.3
32	Stone, clay and glass products	110	40	36.4	48	25	52.1
33	Primary metal industries	147	69	46.9	65	31	47.7
34	Fabricated metal products	299	100	33.4	145	64	44.1
35	Machinery, except electrical	439	130	29.6	295	122	41.4
36	Electric and electronic equipment	334	81	24.3	217	82	37.8
37	Transportation equipment	171	54	31.6	96	50	52.1
38	Instruments and related products	219	70	32.0	149	60	40.3
39	Misc. manufacturing industries	130	38	29.2	56	25	44.6
Weighted average		*n.a.*	*n.a.*	*31.3*	*n.a.*	*n.a.*	*40.1*

Note: Based on The Conference Board universe of all multinational companies. *n.a.* Not applicable.

Table 11. Proportion of Multinational Firms Using Licensing Agreements by Industry, 1979 and 1989

		1979			*1989*		
SIC #	*Industry*	*No. of Companies*	*No. with Licensing Agmts.*	*As % of Total*	*No. of Companies*	*No. with Licensing Agmts.*	*As % of Total*
20	Food and kindred products	131	21	16.0	49	24	49.0
21	Tobacco products	14	3	21.4	4	2	50.0
22	Textile mill products	96	13	13.5	28	12	42.9
23	Apparel and other textile products	89	15	16.9	22	8	36.4
24	Lumber and wood products	65	9	13.8	36	11	30.6
25	Furniture and fixtures	75	9	12.0	30	11	36.7
26	Paper and allied products	98	15	15.3	34	13	38.2
27	Printing and publishing	92	14	15.2	26	5	19.2
28	Chemicals and allied products	254	38	15.0	150	74	49.3
29	Petroleum refining and coal products	54	9	16.7	25	13	52.0
30	Rubber and misc. plastics products	170	32	18.8	69	33	47.8

Table 11 (continued)

		1979			1989		
SIC #	*Industry*	*No. of Companies*	*No. with Licensing Agmts.*	*As % of Total*	*No. of Companies*	*No. with Licensing Agmts.*	*As % of Total*
31	Leather and leather products	30	5	16.7	15	8	53.3
32	Stone, clay and glass products	110	17	15.5	48	16	33.3
33	Primary metal industries	147	32	21.8	65	19	29.2
34	Fabricated metal products	299	40	13.4	145	44	30.3
35	Machinery, except electrical	439	63	14.4	295	107	36.3
36	Electric and electronic equipment	334	41	12.3	217	63	29.0
37	Transportation equipment	171	28	16.4	96	44	45.8
38	Instruments and related products	219	20	9.1	149	57	38.3
39	Misc. manufacturing industries	130	19	14.6	56	25	44.6
Weighted average		*n.a.*	*n.a.*	*13.4*	*n.a.*	*n.a.*	*34.7*

Note: Based on The Conference Board universe of all multinational companies. *n.a.* Not applicable.

Table 12. Proportion of Multinational Firms Engaged in R&D Abroad by Industry, 1979 and 1989

		1979			1989		
SIC #	*Industry*	*No. of Companies*	*No. with R&D*	*As % of Total*	*No. of Companies*	*No. with R&D*	*As % of Total*
20	Food and kindred products	131	7	5.3	49	17	34.7
21	Tobacco products	14	0	0.0	4	2	50.0
22	Textile mill products	96	6	6.3	28	6	21.4
23	Apparel and other textile products	89	4	4.5	22	3	13.6
24	Lumber and wood products	65	1	1.5	36	10	27.8
25	Furniture and fixtures	75	0	0.0	30	2	6.7
26	Paper and allied products	98	3	3.1	34	7	20.6
27	Printing and publishing	92	3	3.3	26	3	11.5
28	Chemicals and allied products	254	28	11.0	150	69	46.0
29	Petroleum refining and coal products	54	3	5.6	25	8	32.0
30	Rubber and misc. plastics products	170	13	7.6	69	17	24.6
31	Leather and leather products	30	1	3.3	15	4	26.7
32	Stone, clay and glass products	110	6	5.5	48	12	25.0
33	Primary metal industries	147	7	4.8	65	14	21.5
34	Fabricated metal products	299	7	2.3	145	31	21.4
35	Machinery, except electrical	439	5	1.1	295	80	27.1
36	Electric and electronic equipment	334	10	3.0	217	49	22.6
37	Transportation equipment	171	4	2.3	96	28	29.2
38	Instruments and related products	219	8	3.7	149	45	30.2
39	Misc. manufacturing industries	130	2	1.5	56	14	25.0
Weighted average		*n.a.*	*n.a.*	*3.7*	*n.a.*	*n.a.*	*25.6*

Note: Based on The Conference Board universe of all multinational companies. *n.a.* Not applicable.

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